



CELEBRATING
40 YEARS OF
AFFORDABLE
HOUSING



2012 Affordable Housing Plan



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2012 Affordable Housing Plan

Minnesota Housing is a strategy-driven organization building the financial, operational, and programmatic infrastructure necessary to achieve its strategic priorities. The agency's Strategic Plan is the blueprint for building this foundation and provides an overview of the agency's mission, vision, values, priorities, and strategies. To implement the Strategic Plan, the agency prepares an Affordable Housing Plan, which typically lays out the funding sources and budgeted amounts for a two-year period. However, because of rapidly changing markets and the agency's new leadership, this Affordable Housing Plan covers one program year, October 1, 2011 through September 30, 2012, which coincides with federal fiscal year 2012. A one-year plan will allow the agency to reassess budgeting decisions and refine its strategic direction as market conditions change.

In program year 2012, Minnesota Housing will make available \$658 million, which is \$43 million or 6.1% less than the amount annually made available under the 2010-11 plan. With less funding, the agency must strategically allocate resources for a continuum of affordable housing needs across the state while maximizing the impact of those investments. Allocating limited Pool 3/Foundation funds is particularly challenging. These funds finance grants and deferred loans that benefit Minnesota's most vulnerable residents. Through the Homeownership Assistance Fund (HAF), Pool 3 also supplements and enhances the Minnesota Mortgage Program by funding entry-cost and down-payment assistance. The Minnesota Mortgage Program is the agency's mortgage program for first time homebuyers and the economic engine that finances the agency's operations.

With rapidly changing housing and financial markets, Minnesota Housing must adjust to meet the changing housing needs of low and moderate income Minnesotans. This Affordable Housing Plan finances the agency's core business as well as new tools to stabilize communities hit by the foreclosure crisis and to preserve the state's aging housing stock. For example, the agency will test a new home-improvement loan product for homeowners who owe more on their mortgages than their homes are worth due to decreased home values. The agency will also fund alternative financing tools for homebuyers to purchase foreclosed homes. A new Rental Rehabilitation Deferred Loan program will be piloted, and the agency will offer conduit financing through the Low and Moderate Income Rental program to help preserve federally-assisted housing.

To develop this plan, Minnesota Housing held six regional housing dialogues in Greater Minnesota. The agency also convened six discussion groups that focused on individual housing topics, including single family lending and financing; neighborhood revitalization; ending long-term homelessness; preserving existing affordable rental housing; creating new affordable rental housing; and serving smaller communities in Greater Minnesota. Staff briefed the agency's Board on these sessions and received further direction to complete this Affordable Housing Plan, which has the following sections:

- The Economic, Financial, Housing, and Demographic Environment
- Sources and Uses of Funds
- Funding Strategic Priorities
- Statewide Approach
- Long-Term Financial Sustainability
- Summary of Program and Policy Highlights
- Next Steps
- Appendices: A - Program Funding by Source; B - Resolutions Regarding General Reserve Account Assets; C - Program Narratives and D - Environmental Scan

The Economic, Financial, Housing, and Demographic Environment

Minnesota Housing developed the 2012 Affordable Housing Plan during a period of significant economic and market uncertainty. These conditions define and will continue to dictate the environment in which the agency operates, creating substantial uncertainty and challenges. Minnesota Housing's Strategic Plan and Affordable Housing Plan must reflect and address this environment.

During the summer and fall of 2011, the economic recovery from the "Great Recession" was slowing down, with the nation's economy growing at an annual rate of just 0.4% in the first quarter of the year and 1.3% in the second. In contrast, the rate was as high as 3.9% in the first quarter of 2010, which is higher but not robust.¹ For a robust recovery, the rate should be above 6% in the year following the end of the recession and above 3% after that for sustained growth.²

The threat of the economy going back into recession, the European debt crisis, and the U.S.'s own debt problems have added more uncertainty to already unsteady financial markets. As a result, nervous investors seeking greater certainty and safety continue to heavily invest in U.S. Treasury securities, which reduces the interest rate the U.S. Treasury needs to pay to attract investors. Because private mortgage rates mirror interest rates on 10-year Treasury securities, mortgage rates have declined to all-time lows. As of October 6, 2011, the average mortgage rate was down to 3.94%.³

Under such market conditions, the value of tax-exempt bonds as a financing source for the agency's first mortgage programs has diminished. Specifically, the spread between interest rates on Minnesota Housing's first mortgage loans and "market rate" first mortgage loans has narrowed. To support state Housing Finance Agencies (HFAs) in this environment, the U.S. Treasury Department is currently buying a portion of HFA's bonds based on 10-year Treasury rates through the New Issue Bond Program (NIBP), which is a temporary program that will expire on December 31, 2011.

The slow and unsteady economic recovery is occurring as the foreclosure crisis continues. After rising from roughly 7,000 foreclosures in 2005 to over 26,000 in 2008, the number has remained in the 23,000 to 26,000 range since 2008.⁴ With so many foreclosures, housing prices declined by 31.5% between 2006 and 2010 in the Twin Cities metropolitan area, after adjusting for inflation.⁵ As a result, roughly 16% of homeowners with a mortgage owe more on their mortgages than their homes are worth.⁶ With large losses in home equity constraining household finances and consumer confidence, the U.S. economy will have difficulty recovering until the housing market recovers, but the housing market will have difficulty recovering until the economy recovers.⁷ Consequently, a sustained recovery in both the economy and housing market will have to occur simultaneously. Until that happens, Minnesota Housing will have to remain flexible and respond quickly to the changing economic, financial, and housing environment.

Other housing and demographic shifts will have a significant impact on Minnesota Housing:

- More and more households became cost burdened by their housing payments (spending more than 30% of their income) during the last decade. The percentage rose from 22% to 33% between 2000 and 2010. The burden of housing costs is much worse for low and moderate income households. Fifty three percent of households with incomes less than \$50,000 were cost burdened in 2010.⁸ Given limited resources, Minnesota Housing needs to be strategic and innovative in meeting the state's growing housing needs.

- Demographic shifts will also affect the housing market. Baby boomers are starting to retire. Between 2010 and 2030, the percentage of Minnesotans who are seniors will increase from 12% to 20%.⁹ As baby boomers retire, what type of housing will they want and need? Over the next decade, generation Y (or the baby boom echo) will enter the prime first-time homebuyer age group (ages 25 to 44). Will they pursue homeownership to the extent that previous generations have? Finally, the percentage of the population from communities of color will increase from 16% to 25% over the next 25 years. How will their housing needs be met?
- The rental market is tightening. With unemployment lower than it was a couple years ago, lower homeownership rates, and little new construction in the multifamily sector, vacancy rates in the Twin Cities metropolitan area have declined to 2.4%, the lowest level in a decade.¹⁰
- The state needs to preserve its affordable housing. The median age of housing in some counties is over 60 years old. Furthermore, the state is at risk of losing some of its federally subsidized rental housing. Based on a preliminary and rough assessment, Minnesota Housing staff estimate that approximately 30% of the state's 31,000 Section 8 units are at risk of opting out of the program in the next five years.

For a more detailed assessment of the economic, financial, housing, and demographic environment in which Minnesota Housing operates see **Appendix D**.

This Affordable Housing Plan reflects and addresses the economic, financial, housing market, and demographic reality confronting the agency and state. However, over the next year, the agency will conduct further research, assessment, and planning to refine and revise its strategies for serving the state's growing senior population, preserving affordable housing, and addressing the growing need for more affordable housing throughout the state. The agency's current strategic plan identifies all three of these efforts as key action steps. These efforts will provide important information for the development of the next Affordable Housing Plan.

Resources: Sources and Uses of Funds

In program year 2012, Minnesota Housing will make available \$658 million for housing-related investments, which is \$43 million or 6.1% less than the amount annually made available under the 2010-11 plan. A large share of the reduction stems from the slow housing market. There is less demand for home mortgages and home-improvement loans; consequently, the agency has budgeted fewer resources for these activities. However, in future plans, the agency expects to increase funding for these activities as the housing market recovers. Federal funds are another source of the reduction. Economic stimulus and foreclosure mitigation funds provided by the federal government during the previous plan are not available under this plan. Finally, decreased appropriations from the state along with reduced agency resources contributed to the decline. The following section provides greater detail on the change in funding levels.

Sources of Funds

Table 1 shows the 2012 funding levels (including carry forward of committed balances) by source of funds. "Carry forward of committed balances" represent committed resources from previous plans that have not yet disbursed. "Funds for new activity" are resources that are available for commitment during the 2012 plan, including resources made available for the first time, loan repayments, and uncommitted funds from previous plans.

Table 1: Funds for New Activity and Committed Carry Forward Balances that Are Available Under the Affordable Housing Plan Ending September 30, 2012

	(in '000's)		
	Funds for New Activity	Carry Forward of Committed Balances	Total
Federal Funds	\$211,125	\$29,317	\$240,443
State Appropriations	\$58,557	\$57,752	\$116,309
Bond Proceeds	\$290,000	\$89,220	\$379,220
Housing Investment Fund (Pool 2)	\$69,400	\$84,559	\$153,959
Housing Affordability Fund (Pool 3)	\$29,202	\$16,660	\$45,863
Total	\$658,284	\$277,508	\$935,793

Figure 1 graphically presents the level new funding in 2012 by source, while Figure 2 shows the changes in annual new funding from the 2010-11 plan to the 2012 plan.

Figure 1: 2012 Affordable Housing Plan - Program Resources for New Activity, by Source (in thousands and percentages)

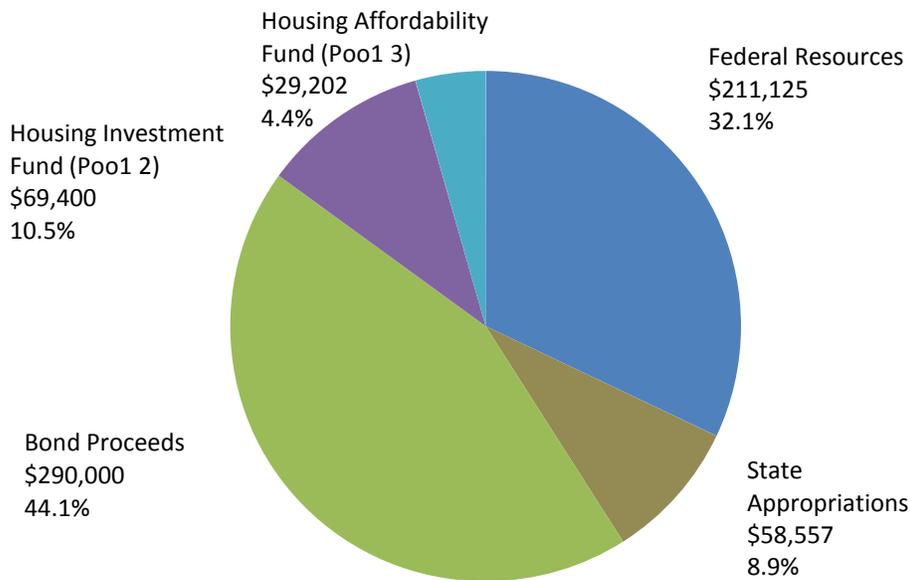
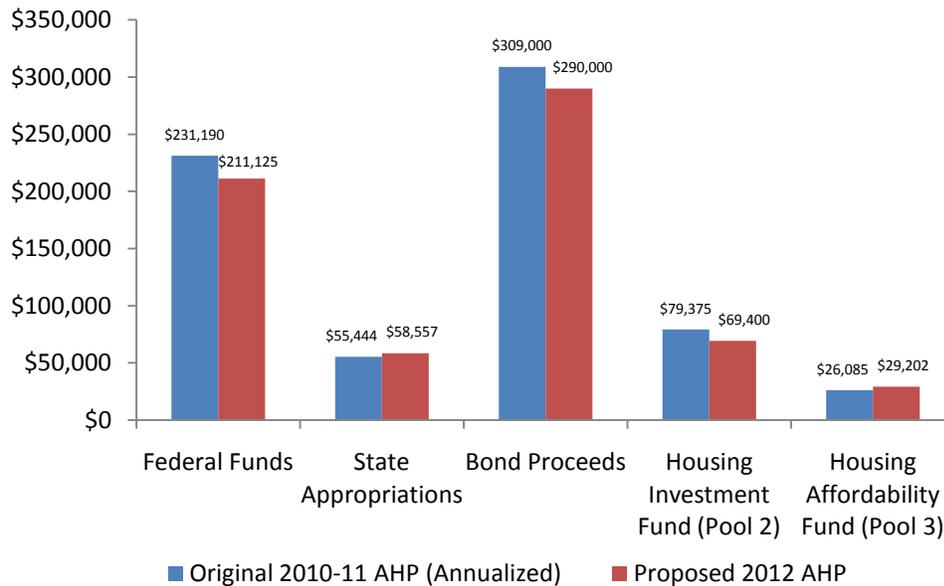


Figure 2: 2010-11 and 2012 Affordable Housing Plans - Annual New Activity (in thousands)

There are several reasons for the changes and overall decrease in funding in the 2012 plan compared with the previous plan, as shown in Figure 2:

- Bond proceeds budgeted under this plan will be less than the previous plan. In the slow housing market, demand for mortgages financed with agency bonds will limit the amount of bond proceeds the agency will use, rather than the state's allocation of bonding authority. As the housing market improves, the agency expects to budget higher levels of bond proceeds in future Affordable Housing Plans.
- Pool 2 resources budgeted under the previous plan will also be less. Again, market demand will limit the use of these funds. For example, with the downturn in the economy and many homeowners owing more on their mortgages than their homes are worth (making them ineligible for home improvement loans), demand for home improvement loans has declined.
- Federal resources have declined largely because the previous plan had federal stimulus and foreclosure mitigation funds that are no longer available. Under the previous plan, Minnesota Housing received funds under the American Recovery and Reinvestment Act (ARRA), primarily Tax Credit Assistance Program (TCAP) and 1602 (Exchange) funds that helped move forward tax credit developments that had been previously stalled because of a downturn in the tax credit market. Thankfully, the tax credit market has recovered substantially, and these one-time resources are no longer needed.
- While Minnesota Housing experienced a 7.2% reduction in state appropriations from the previous biennium, this plan has more state appropriated funds available for commitment than the previous plan due to a large balance of uncommitted funds transferred from the previous plan to this plan. The bulk of the transferred funds (\$10.1 million) are for a rental rehabilitation deferred loan program that required a complete revamping to better address community needs.

- The increase in Pool 3 resources shown in Figure 2 is actually an accounting anomaly. Pool 3 has financed two revolving loan programs (the Non-Profit Capacity Building Revolving Loan Program and the Single-Family Interim Lending program). Budgeting rules that the agency uses for these two revolving funds makes comparing a one-year plan (such as 2012) with half of a two-year plan (such as 2010-11) problematic. The comparison makes it look like there is a large increase, when the level of available funds is actually similar. Pool 3 resources excluding existing balances from the two revolving funds actually declined from \$20.4 million to \$18.9 million.

To identify funding sources for this plan, staff projected the resources that will be available to Minnesota Housing from each source during the year. The plan allocates funds from four primary sources as described below. The precise amounts of some funding categories are known at the time the plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the biennium. Staff used various analytical approaches (including fund cash flow analysis) to project resources available for housing programs.

Federal Resources. There are two types of federal resources: appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing and housing tax credits. For purposes of the plan, current funding levels are used for the HUD appropriations – Section 8, HOME, and Housing Opportunities for Persons with AIDS (HOPWA) – and will be adjusted once Congress has adopted each year’s budget. The amount of federal housing tax credits is based on a per capita formula and may vary slightly each year.

State Appropriations. The amount of funding from the state is based on the 2012-2013 general fund budget adopted by the 2011 Minnesota Legislature. A state capital budget is anticipated during the course of this plan, and any additional capital received will be reflected as a proposed amendment to the Affordable Housing Plan.

Bond Proceeds. Bond proceeds are generated by the issuance of tax-exempt bonds. Tax-exempt bond proceeds have historically been limited by the amount of new bonding authority made available to the agency under a state allocation formula, the projected amount of bonds refunded over the next year, and an estimate of the amount of bonding authority contributed by cities and counties for issuance on their behalf. However, market conditions and reduced demand for mortgages have resulted in the agency not utilizing all of its available bonding authority in recent years.

As noted earlier, bond proceeds to fund single family mortgages have been supported by the federal New Issue Bond Program (NIBP), which is scheduled to expire on December 31, 2011 if not modified or extended in a useful way. Minnesota Housing is monitoring these developments and discussing alternative delivery approaches to keep its single family mortgage business strong.

Agency Resources. Minnesota Housing generates resources from its bond funds and makes them available for investment in housing programs. Board guidelines governing the use of agency resources are provided in **Appendix B**. Agency resources are currently categorized as follows:

- Housing Investment Fund (also known as “Pool 2”). The Housing Investment Fund’s balance is set according to the net asset requirements and investment guidelines adopted by the Board in April, 2007 after review and confirmation with the rating agencies and the agency’s cash flow projections. The level of funding that must be retained in Pool 2 is an amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool

3/foundation) to be not less than the combined net assets of the same funds for the immediately preceding audited fiscal year end. The practical result of this requirement is to set the amount of current period earnings as an upper limit on the amount that can be annually transferred from Pool 2 to Pool 3. According to Board policy, the use of Pool 2 funds is limited to investment quality loans and investment grade securities as defined by the agency. Most of the net assets in Pool 2 are already invested in housing loans; so, it is the Pool 2 liquid assets and expected loan repayments that are available for budgeting in the Plan.

- Housing Affordability Fund (also known as “Pool 3/Foundation”). The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund above, and its balance is the net assets in excess of the required balances in Pools 1 and 2. The sources of ongoing funding for Pool 3 are transfers of all (or a portion of) current period earnings from Pool 2 combined with any repayments or prepayments from loans previously funded under Pool 3. This fund is more flexible than the Housing Investment Fund as it may be used for programs not resulting in amortizing, investment quality loans, including deferred loans and grants.

Uses of Funds

Table 2 provides the 2012 funding levels by the use of the funds; it also compares the 2012 level with the annual funding level provided under the 2010-11 plan. Staff allocated 2012 funds based on: (1) the agency’s strategic priorities, (2) historical use patterns, (3) changes in the economic, financial, housing, and demographic environment, and (4) stakeholder input.

Table 2: New Resources Available Under the 2012 Affordable Housing Plan by Use

Program Category	2010-11 Original AHP (Annualized)	2012 AHP
Homebuyer	\$296,731,275	\$271,204,957
Home Improvement	\$32,136,011	\$26,215,000
Rental Production - New Construction and Rehabilitation	\$122,499,984	\$113,339,756
Rental Assistance Contract Administration	\$171,625,000	\$181,625,000
Non-Capital Resources to Prevent and End Long-Term Homelessness	\$23,282,141	\$22,005,304
Portfolio Management	\$15,750,000	\$4,375,015
Multiple Use Resources	\$35,375,300	\$36,458,538
Other	\$3,693,556	\$3,060,763
Total	\$701,093,266	\$658,284,333

As shown in Table 2, the 2012 Affordable Housing Plan reduces funding across multiple program areas. The only program areas to receive an increase are “rental assistance contract administration” and “multiple use resources.” The “rental assistance contract administration” represents funds that the agency receives from the federal government to administer the Section 8 and 236 programs. Funding for these programs is outside the control of the agency.

The plan also includes a decrease in funds available for portfolio management, which are the agency’s asset management programs in the Multifamily Division. While managing the agency’s multifamily portfolio is critical, these programs have historically committed fewer funds than their initial allocation under previous Affordable Housing Plans. The funding level in the 2012 plan reflects historical commitment levels. (Resources allocated under the “Rental Production – New Construction and Rehabilitation” category also can be used to finance stabilization and long-term preservation of properties in the agency’s portfolio.) In future Affordable Housing Plans, the level of funding for asset management will likely increase as the agency develops a comprehensive plan for preserving existing affordable housing. Preserving and maintaining the agency’s own portfolio will be a critical activity.

Appendix A lists funding levels for each of the agency’s programs by source.

The Strategic Priorities of Minnesota Housing

Under its current Strategic Plan, Minnesota Housing has four policy-related strategic priorities:

- Finance New Opportunities for Affordable Housing
- Preserve Existing Affordable Housing
- Prevent and End Long-Term Homelessness
- Mitigate Foreclosure Impact through Prevention and Remediation

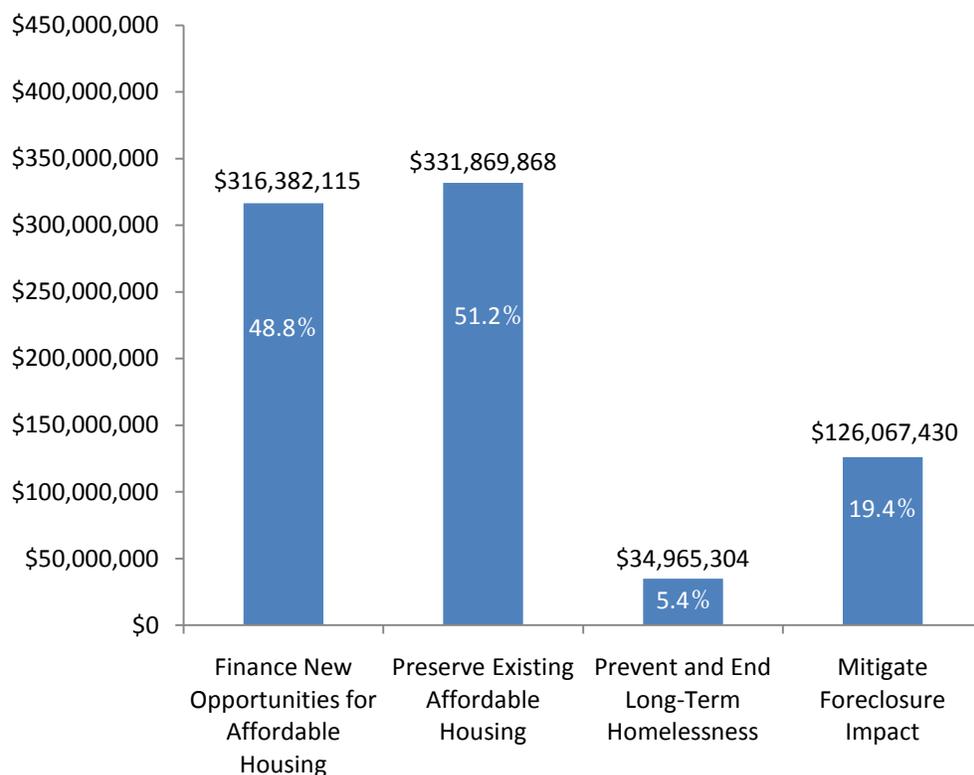
This section outlines how the agency’s programmatic investments will support these strategic priorities. Most of the agency’s programs support more than one strategic priority – for example, many of the rental production programs support both the rehabilitation/preservation of existing affordable housing (“preserve existing affordable housing”) and the construction of new affordable housing (“finance new opportunities for affordable housing”). Figure 3 shows the estimated distribution of resources by strategic priority under the 2012 Plan.

Essentially all of the agency’s activities (even within programs that serve more than one priority) can be assigned to one of the agency’s comprehensive priorities: (1) financing new opportunities for affordable housing, or (2) preserving existing affordable housing opportunities. While the agency tries to balance its funding between these two priorities when making its funding decisions, the approximate 50/50 split shown in Figure 3 was not an explicit goal. Rather, it was the outcome of program-by-program funding decisions. In addition, while Minnesota Housing has control over how some funds are spent, federal and state law constrain, and in some cases dictate, how other funds are spent.

Maintaining a balance between new opportunities and preservation is important in the current environment. On the one hand, Minnesota has an aging housing stock, and many federally-subsidized units are at risk of leaving their federal programs. In addition, rehabilitating an existing building is typically less expensive than new construction. Consequently, the state must maintain and preserve the existing stock of affordable housing. On the other hand, the rental vacancy rate in the Twin Cities is down to 2.4%, indicating a shortage of multifamily rental housing. In addition, nearly two-thirds of low-

and moderate income renters are cost burdened by their housing payments. Thus, it is critical for the state to expand the supply of affordable housing.

Figure 3: Allocation of 2012 Resources by Strategic Priority (dollars and percentage)



The agency’s two targeted priorities (prevent and end long-term homelessness and mitigate foreclosure impact through prevention and remediation) can be addressed by either financing new housing opportunities or preserving existing housing. For example, both rehabilitated and newly constructed rental units can be designated for people who have experienced long-term homelessness. Thus, the two targeted priorities overlap with the comprehensive priorities. As shown in Figure 3, Minnesota Housing plans to spend 5.4% of its funds on homelessness-related activities and 19.4% on foreclosure mitigation.

Table 3 displays a program-by-program allocation of 2012 resources broken out by strategic priority. **Appendix C** provides a detailed description of each program listed in Table 3. The appendix also includes information about financing each program.

Table 3: Estimated Distribution of Affordable Housing Plan Resources by Program and Strategic Priority.

Programs	AHP Total	Comprehensive Priorities		Targeted Priorities	
		Finance New Opportunities for Affordable Housing	Preserve Existing Affordable Housing	Prevent and End Long-Term Homelessness	Mitigate Foreclosure Impact
Homebuyer	\$271,204,957	\$270,350,854	\$854,103	\$0	\$95,488,127
Minnesota Mortgage Program (MMP and CASA)	\$250,000,000	\$250,000,000			\$84,170,253
Homeownership Assistance Fund (HAF)	\$5,159,475	\$5,159,475			\$2,368,648
HOME HELP	\$5,500,000	\$5,500,000			\$3,520,000
Single-Family Interim Lending	\$6,965,000	\$6,965,000			\$4,596,900
Habitat for Humanity Initiative	\$2,000,000	\$2,000,000			
Homeownership Education, Counseling, and Training (HECAT)	\$1,580,482	\$726,379	\$854,103		\$832,325
Home Improvement	\$26,215,000	\$0	\$26,215,000	\$0	\$0
Fix-Up Fund (FUF and CFUF)	\$20,465,000		\$20,465,000		
Rehabilitation Loan Program	\$5,750,000		\$5,750,000		
Rental Production - New Construction and Rehabilitation	\$113,339,756	\$26,467,852	\$86,871,904	\$10,757,762	\$13,879,950
Low and Moderate Income Rental (LMIR)	\$68,000,000	\$20,000,000	\$48,000,000	\$1,158,011	\$9,232,376
Flexible Financing for Capital Costs (FFCC)	\$4,500,000	\$1,323,529	\$3,176,471	\$171,024	\$610,966
Low-Income Housing Tax Credits (LIHTC)	\$7,700,000	\$5,144,323	\$2,555,677	\$6,891,814	\$1,045,431
Affordable Rental Preservation (PARIF and HOME)	\$22,031,171		\$22,031,171	\$2,536,913	\$2,991,177
Rental Rehabilitation Deferred Loan Pilot Program	\$10,108,585		\$10,108,585		
Rental Rehabilitation Loan Program	\$1,000,000		\$1,000,000		
Rental Assistance Contract Administration	\$181,625,000	\$0	\$181,625,000	\$0	\$0
Section 8 - Performance Based Contract Administration (PBCA)	\$105,000,000		\$105,000,000		
Section 8 - Traditional Contract Administration (TCA)	\$75,000,000		\$75,000,000		
Section 236	\$1,625,000		\$1,625,000		

Programs	AHP Total	Comprehensive Priorities		Targeted Priorities	
		Finance New Opportunities for Affordable Housing	Preserve Existing Affordable Housing	Prevent and End Long-Term Homelessness	Mitigate Foreclosure Impact
Non-Capital Resources to Prevent and End Long-Term Homelessness	\$22,005,304	\$0	\$22,005,304	\$22,005,304	\$0
Housing Trust Fund (HTF)	\$10,071,991		\$10,071,991	\$10,071,991	
Ending Long-Term Homelessness Initiative Fund (ELHIF)	\$1,598,600		\$1,598,600	\$1,598,600	
Bridges	\$2,706,396		\$2,706,396	\$2,706,396	
Family Homeless Prevention and Assistance Program (FHPAP)	\$7,488,496		\$7,488,496	\$7,488,496	
Housing Opportunities for Persons with AIDS (HOPWA)	\$139,821		\$139,821	\$139,821	
Portfolio Management	\$4,375,015	\$0	\$4,375,015	\$0	\$0
Asset Management	\$3,500,000		\$3,500,000		
Asset Management Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	\$875,015		\$875,015		
Multiple Use Resources	\$36,458,538	\$19,563,408	\$8,269,086	\$2,202,238	\$16,699,353
Economic Development and Housing/Challenge (EDHC)	\$27,832,494	\$19,563,408	\$8,269,086	\$2,202,238	\$16,699,353
Technical Assistance and Operating Support	\$3,306,044	TBD	TBD	TBD	TBD
Non-Profit Capacity Building Loan Program	\$5,320,000	TBD	TBD	TBD	TBD
Other	\$3,060,763	\$0	\$1,654,457	\$0	\$0
Administrative Expenses HOME	\$1,406,306	TBD	TBD	TBD	TBD
Manufactured Home Relocation Trust Fund	\$1,238,761		\$1,238,761		
Flood - Economic Development and Housing/Challenge	\$292,821		\$292,821		
Disaster Relief Contingency Fund	\$122,875		\$122,875		
Total *	\$658,284,333	\$316,382,115	\$331,869,868	\$34,965,304	\$126,067,430

* For each program, the sum of the comprehensive priorities (finance new opportunities for affordable housing and preserve existing affordable housing) equals the program total. The difference between the AHP total and the sum of the two comprehensive priorities in the last row (Total) is accounted for by the programs for which a priority allocation cannot be made at this time and that have a "TBD" label for the priorities.

The following sections discuss Minnesota Housing's activities under each of the strategic priorities.

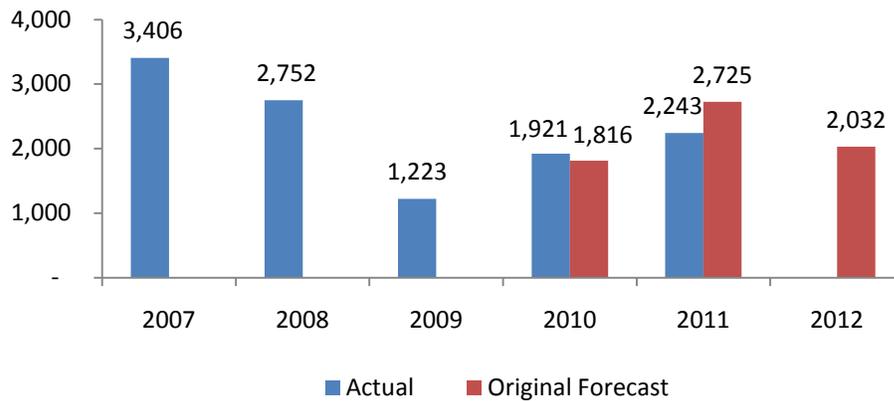
Finance New Opportunities for Affordable Housing

Minnesota Housing finances new affordable housing opportunities by assisting first-time homebuyers and by making loans to support new construction and acquisition/rehabilitation of new affordable housing opportunities, both multifamily rental and owner-occupied. This Affordable Housing Plan proposes an allocation of \$316 million toward financing new affordable housing opportunities.

Mortgage and Entry-Cost Assistance for First-Time Homebuyers

Using proceeds primarily from tax-exempt bond sales, Minnesota Housing has traditionally offered first-time homebuyers below-market-rate mortgages through the Minnesota Mortgage Program, allowing buyers who meet Minnesota Housing’s income requirements to make lower monthly payments. (See Figure 4) Additionally, the Homeownership Assistance Fund (HAF) and the HOME Homeowner Entry Loan Program (HOME HELP) provide additional entry-cost assistance to increase the ability of eligible customers to qualify for a mortgage loan.

Figure 4: Number of Minnesota Housing First Mortgages Purchased/Settled



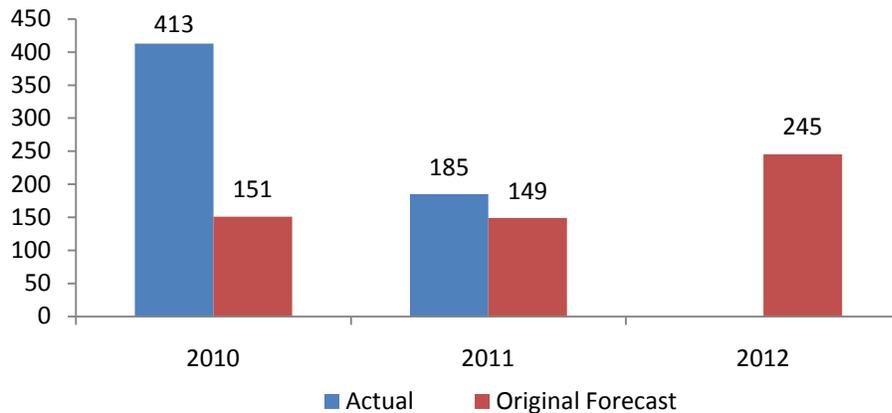
In 2008, drastic changes shook the housing and mortgage markets. The impact of these changes on Minnesota Housing’s business is evident in Figure 4. Minnesota Housing responded to those changes in a variety of ways, including changing its business model from purchasing whole loans to purchasing mortgage-backed securities to back its mortgage revenue bonds. This change reduces the risk of loss to the agency in the event of future defaults. The agency also took full advantage of the New Issue Bond Program, altered its mortgage pricing strategies, and adapted its overall program requirements to changing market conditions.

Since 2008, Minnesota Housing has regained much of its mortgage business and its volume of loans has stabilized. Yet, the housing and mortgage markets remain under stress, and significant changes are likely to continue to occur that may impact the agency’s mortgage business. Besides the scheduled expiration of the New Issue Bond Program, Congress is considering significant changes to federal mortgage insurance and guarantee programs and to the structure of the national secondary market, both of which could have an impact on the way the agency conducts its mortgage business. During the next year, the agency plans to monitor and respond to continued changes in the market as well as conduct an overall review of its mortgage products to assure it continues its strong, mission-driven place in the Minnesota mortgage market.

Construction and Other New Affordable Housing Opportunities

Minnesota Housing finances new construction and other new affordable homeownership opportunities through the Community Revitalization Fund (CRV), Habitat for Humanity Initiative, and other programs. (See Figure 5.) The agency expects 2012 production to be between the levels experienced in 2010 and 2011. In addition, the agency has created a new initiative under the Economic Development and Housing/Challenge program that will provide alternative financing for the purchase of previously foreclosed homes. This initiative should increase the rate at which foreclosed homes that have been acquired and rehabilitated by the agency’s partners are resold, helping stabilize communities heavily impacted by the foreclosure crisis.

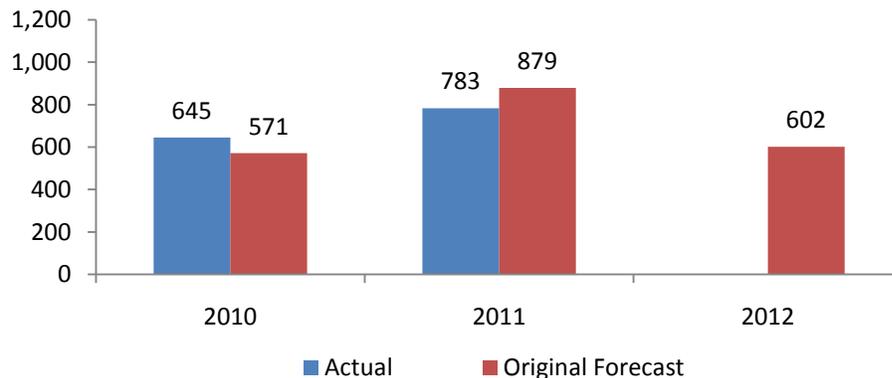
Figure 5: Other New Single-Family Affordable Housing Opportunities, including New Construction and Acquisition/Rehabilitation/Resale



The agency also supports the construction of new affordable rental housing – including the conversion and adaptive reuse of non-residential structures to rental housing – through a number of programs, including the Economic Development and Housing/Challenge program, Housing Tax Credits, and the Low and Moderate Income Rental program. (See Figure 6.) The agency expects to finance slightly fewer new rental units in 2012 than it did in 2010 and 2011.

With the low vacancy rates and the demand for more affordable rental housing, the agency will continue to assess the level of investment that it makes in new rental construction.

Figure 6: Number of New Affordable Rental Units



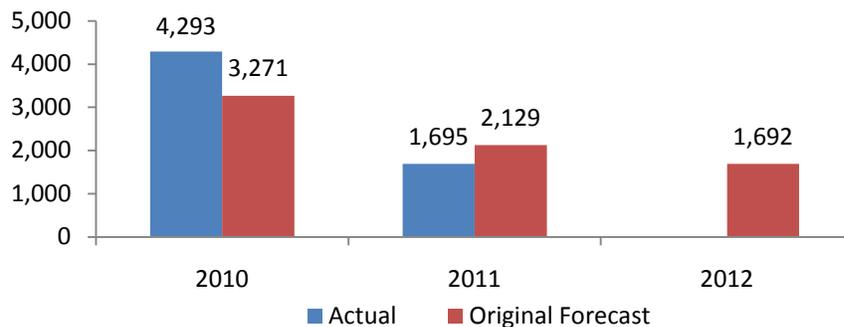
Preserve Existing Affordable Housing

Preserving existing affordable housing, both rental and owner-occupied, is often the most cost-effective and environmentally sound way to ensure an ongoing supply of affordable housing. There are two primary ways the agency preserves housing: (1) rehabilitating homes and rental developments, and (2) extending the commitment to affordability under federal rental programs (such as Section 8 and 236). The agency also maintains rental affordability by providing ongoing rent assistance.

Rehabilitation of Owner-Occupied Housing

To preserve single-family housing, the agency finances developers to rehabilitate owner-occupied affordable housing through the Economic Development and Housing/ Challenge program. The agency also purchases loans through the Fix-Up Fund and Rehabilitation Loan program to help homeowners improve their homes. As shown in Figure 7, the agency expects 2012 production to be similar to the level experienced in 2011.

Figure 7: Number of Owner-Occupied Homes Preserved or Rehabilitated



Production in 2010 was very high as the agency collaborated with the Department of Commerce to couple federal funds for energy improvement rebates with the agency’s home improvement loan program (the Fix-Up Fund) to incent homeowners to make energy conservation improvements. The incentive resulted in a high level of production under the Fix-Up Fund. Production fell off in 2011 after the federal energy conservation funds were expended.

Minnesota Housing’s Fix-up Fund is the largest home improvement loan program in the country among state housing finance agencies; and, as noted, the importance of single family property preservation throughout the state is increasing. As a result, the agency plans to look at the market position of the Fix-up Fund and consider program changes to make it a stronger product. In addition, changing market conditions require the agency to test new approaches. For example, as home prices have fallen, more homeowners owe more on their mortgage than their homes are worth. These high loan-to-value homeowners do not qualify for the traditional Fix-Up Fund loans. To serve these customers, the agency will pilot a new home improvement loan product for high loan-to-value homeowners with strong credit histories. The pilot will test the programmatic and financial viability of the product.

During 2012, Minnesota Housing also will change the funding source for its Rehabilitation Loan Program from federal HOME funds to state appropriated funds. This will result in a more flexible program that will be easier for lenders and Minnesota Housing to administer, and should enhance lenders’ ability to provide rehabilitation funding to low income Minnesota homeowners.

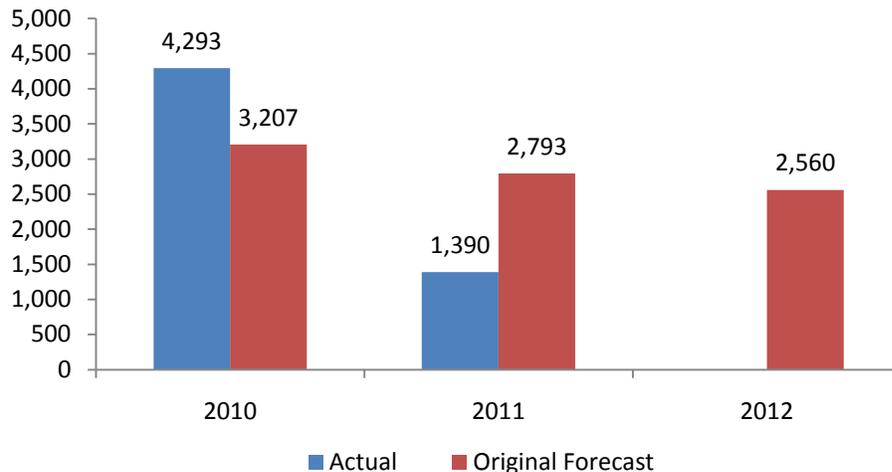
Preservation and Rehabilitation of Rental Housing

Minnesota Housing preserves affordable housing by carefully managing its own portfolio of agency-financed affordable housing developments. The agency applies Asset Management, Financing Adjustment Factor (FAF), and Financing Adjustment (FA) funds to refinance loans, address deferred maintenance, rehabilitate properties, and provide operating subsidies to ensure developments are decent and safe and to protect the agency's assets.

The agency also rehabilitates and preserves the affordability of other rental housing through the Affordable Rental Preservation (PARIF and HOME), Low and Moderate Income Rental (LMIR), Housing Tax Credit, Economic Development and Housing/Challenge, and Rental Rehabilitation Loan programs. These programs provide amortizing loans, deferred loans, and tax credits to preserve the existing stock of affordable rental housing, including federally subsidized units.

In 2012, the agency expects a level of production that is between the 2010 and 2011 levels. (See Figure 8) With fewer funds annually available under the 2012 Affordable Housing Plan, an overall drop off in production is expected. However, an emphasis will be placed on the preservation of at-risk federally assisted developments, which ensures long-term affordability of the units and leverages nearly \$4 million in federal rent subsidy for every \$1 in anticipated gap financing.

Figure 8: Number of Affordable Rental Units Preserved or Rehabilitated



In addition, the agency is taking several steps to improve its preservation and rehabilitation efforts. First, the agency will develop a new preservation plan and strategy that will coordinate and prioritize preservation activities within the agency and with partners. Second, in 2012, the agency will launch a pilot Rental Rehabilitation Deferred Loan program to rehabilitate naturally-affordable rental housing in Greater Minnesota. Third, in 2012, the agency will provide conduit financing (issuing bonds on the behalf of others) to preserve federally assisted housing through the Low and Moderate Income Rental (LMIR) program. The program will bring tax-exempt bonds to the agency's preservation efforts and focus on housing developments with minimal gap financing needs. (The purpose of conduit financing is to streamline the process a portfolio owner may need to go through to restructure multiple properties in multiple jurisdictions.)

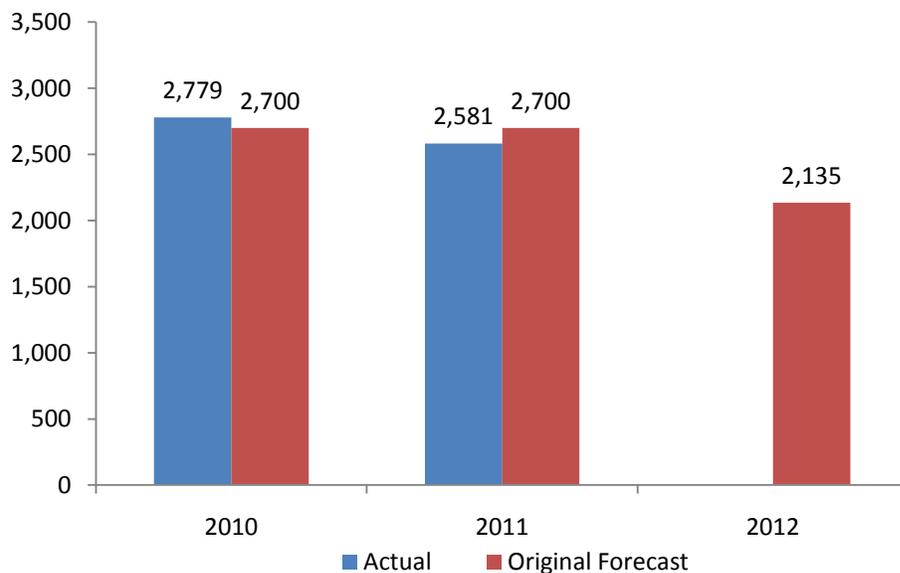
As an administrator of Section 8-financed developments, Minnesota Housing also helps ensure that these properties remain both financially viable and physically decent, and that federal rental assistance continues to support low-income Minnesota households. As a quality administrator, the agency performs management and occupancy reviews, processes contract renewals and monthly payment vouchers, and follows up on physical inspections. Because 55% of the contract renewals processed each year are multi-year contracts, the agency helps ensure the continued affordability of these units without a capital outlay from the agency.

Providing Ongoing Rent Assistance

Minnesota Housing has two primary rent assistance programs – Housing Trust Fund Rent Assistance and Bridges. These programs subsidize the rent that tenants pay by limiting their rent payment to 30% of their income, with the program paying the remainder. In most cases, tenants can take the subsidy with them when they move. Housing Trust Fund Rent Assistance is targeted to extremely low-income households (less than 30% of area median income) and is intended to be temporary. Rent assistance provided under Bridges is provided on behalf of individuals with serious mental illness who are on a waiting list for a permanent rent subsidy.

Because of funding limitations, Minnesota Housing has had to scale back its commitment to rent assistance. Consequently, fewer households will be assisted in 2012 than in the past. The agency is achieving the reduction through attrition as program participants leave the program on their own. In addition, the end of the Temporary Rental Assistance for Families (TRAF) program during 2011 will result in the loss of 200 rental vouchers and contributes to the forecasted decline in 2012. (See Figure 9)

Figure 9: Number of Households Assisted with Ongoing Rent Assistance



Prevent and End Long-Term Homelessness

Preventing and ending long-term homelessness is one of the agency’s strategic priorities. On the prevention side, the agency funds programs like the Family Homeless Prevention and Assistance Program (FHPAP), which provides short-term assistance for services and housing payments to prevent homelessness. With respect to ending long-term homelessness, Minnesota Housing has been one of the

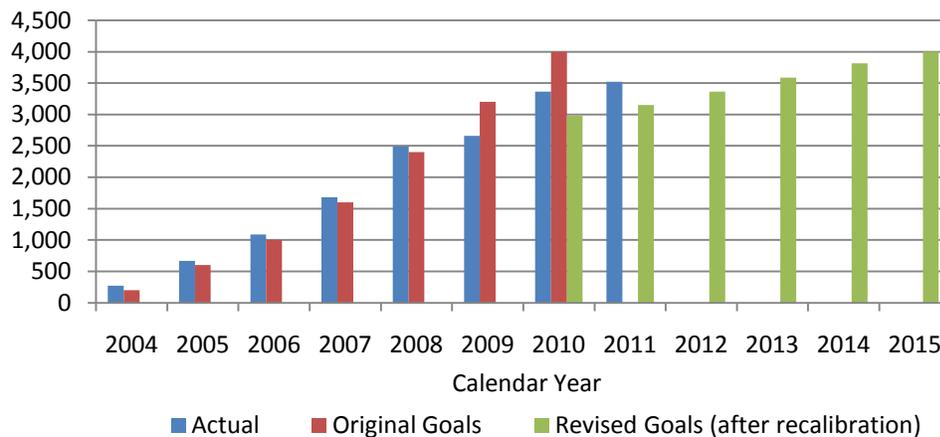
key stakeholders in developing and implementing the state’s Business Plan to End Long-Term Homelessness. The other partners include the Department of Human Services, Department of Corrections, and Department of Employment and Economic Development, as well as the state and regional Heading Home organizations.

The agency uses multiple strategies to implement the business plan. These include providing funds to: (1) develop new rental housing, (2) rehabilitate existing rental housing, (3) support tenant-based and project-based rental assistance, and (4) provide operating subsidies. These efforts are funded through the Housing Trust Fund, Housing Tax Credit, Low and Moderate Income Rental, and Economic Development and Housing/Challenge, and Bridges programs. Additional resources for this effort include Pool 3 funds allocated to the Ending Long-Term Homelessness Fund (ELHIF).

Given the difficult economic environment and challenges of securing funding, the state has partially modified its efforts under the business plan. Originally, the plan called for the funding of 4,000 new housing opportunities by 2010 for people experiencing long-term homelessness. In 2010, the plan was recalibrated, and the goal of reaching 4,000 opportunities was deferred to 2015.

Figure 10 shows the state’s progress in achieving the 4,000 goal. Activity under the business plan is tracked on a calendar year basis, not a federal fiscal year basis. Thus, new supportive housing opportunities that will be selected for funding in November 2011, and funded under the 2012 Affordable Housing Plan, are shown in 2011 calendar year. The blue “Actual” bar in Figure 10 is a projection for calendar year 2011. Overall, while the state did not reach the original goal of 4,000 new housing opportunities by 2010, it is ahead of the recalibrated goal to achieve this level by 2015.

Figure 10: Number of New Supportive Housing Opportunities for People Experiencing Long-Term Homelessness (cumulative count)



Beyond financing prevention efforts, supportive housing units, and rental assistance, Minnesota Housing provides funding to support the Homeless Management Information System (HMIS), which is a tracking system to capture the results of this work. Minnesota Housing also helps fund the Wilder Center Survey of Homelessness in Minnesota, which occurs every three years.

Overall, Minnesota Housing estimates that it will commit about \$35 million to preventing and ending long-term homelessness.

Mitigate Foreclosure Impacts through Prevention and Remediation

In cooperation with its partners, Minnesota Housing is responding to the large number of foreclosures occurring in many parts of the State. According to data from HousingLink, the number of sheriff sales statewide increased nearly 300% between 2005 and 2008 and has remained at roughly the 2008 level since then.¹¹ While a foreclosure most dramatically affects the borrower losing a home, it can also have a negative impact on the entire neighborhood. Concentrations of foreclosures create blight and contribute to a rapid decline in home prices. Using federal, state, and agency resources, Minnesota Housing has supported foreclosure-prevention counseling and foreclosure-remediation assistance through a partnership with the Minnesota Home Ownership Center, the Minnesota Foreclosure Partners Council, the Family Housing Fund, the Greater Minnesota Housing Fund, local communities, and others.

In response to the foreclosure crisis, Minnesota Housing has committed over \$100 million since October, 2006 to directly assist with foreclosure prevention and neighborhood remediation efforts through the purchase, and in most cases rehabilitation, of foreclosed homes. Of the total, \$43 million is from the Neighborhood Stabilization Program (NSP) for foreclosure remediation, \$14 million from the National Foreclosure Mitigation Counseling Program, and \$6 million from the Federal HOME program to provide down payment assistance for the purchase of foreclosed homes. The balance is from state appropriations and agency resources. For example, Minnesota Housing made available \$26 million from agency resources for a strategic land acquisition program in foreclosure impact areas, a community land bank, and an acquisition and rehabilitation initiative. The agency has also funded foreclosure remediation activities through the Community Revitalization (CRV) and My Home Source programs.

In addition, Minnesota Housing encourages its development and lender partners to work in communities heavily impacted by the foreclosure crisis. For example, in the RFP (Request for Proposal) selection process, the agency gives additional points to developments in zip codes heavily impacted by foreclosures. In 2011, roughly 19% of the multifamily developments were in high need zip codes, and 87% of the CRV activity addressed foreclosures. (For 2011, the agency identified 122 zip codes – out of the state's 883 residential zip codes – as having a high foreclosure rate.) In addition, any homebuyer using Minnesota Housing's first mortgages to purchase a home in a high need zip code is eligible to receive entry cost assistance. In 2011, roughly 46% of the agency's first mortgages occurred in these high need zip codes. Even if these activities do not directly involve the purchase of a foreclosed property, they encourage investment and market activity in communities needing stabilization.

Overall, Minnesota Housing estimates that roughly \$126 million of the 2012 funds will go towards foreclosure prevention and remediation. To encourage further targeting of funds, the agency has reduced the number of high need zip codes from 122 to 75 for 2012.¹²

Statewide Approach

Minnesota Housing serves a continuum of affordable housing needs throughout the state. The agency's programs serve a wide range of clients – homeless families and individuals, renters needing various levels of assistance, first-time homebuyers, and homeowners with improvement needs. A broad network of delivery, funding, and community partners allows the agency to provide these programs throughout the state and to maximize the impact of its housing investments. Critical partners include: the Family Housing Fund, Greater Minnesota Housing Fund, lenders, non-profit and for-profit developers, non-profit housing intermediaries, faith-based organizations, and all levels of government. Through the agency's RFP (Request for Proposals) and application process and lender network,

Minnesota Housing works with local partners to provide the right type of assistance to the right type of household in the right community.

As shown in Figure 11, the agency’s homebuyer, homeowners, and rental programs serve clients of varying income levels. Rental programs generally serve households with extremely low-incomes (less than \$22,000); homebuyer programs often serve households with very low-incomes (less than \$37,000); and while home improvement and foreclosure counseling programs serve many moderate income homeowners (more than \$58,000), they also serve some households with low incomes (less than \$58,000).¹³ Most of the households shown as having incomes greater than \$80,000 were those that received foreclosure counseling.

Figure 11: Income Distribution of Households Assisted by Minnesota Housing in 2010

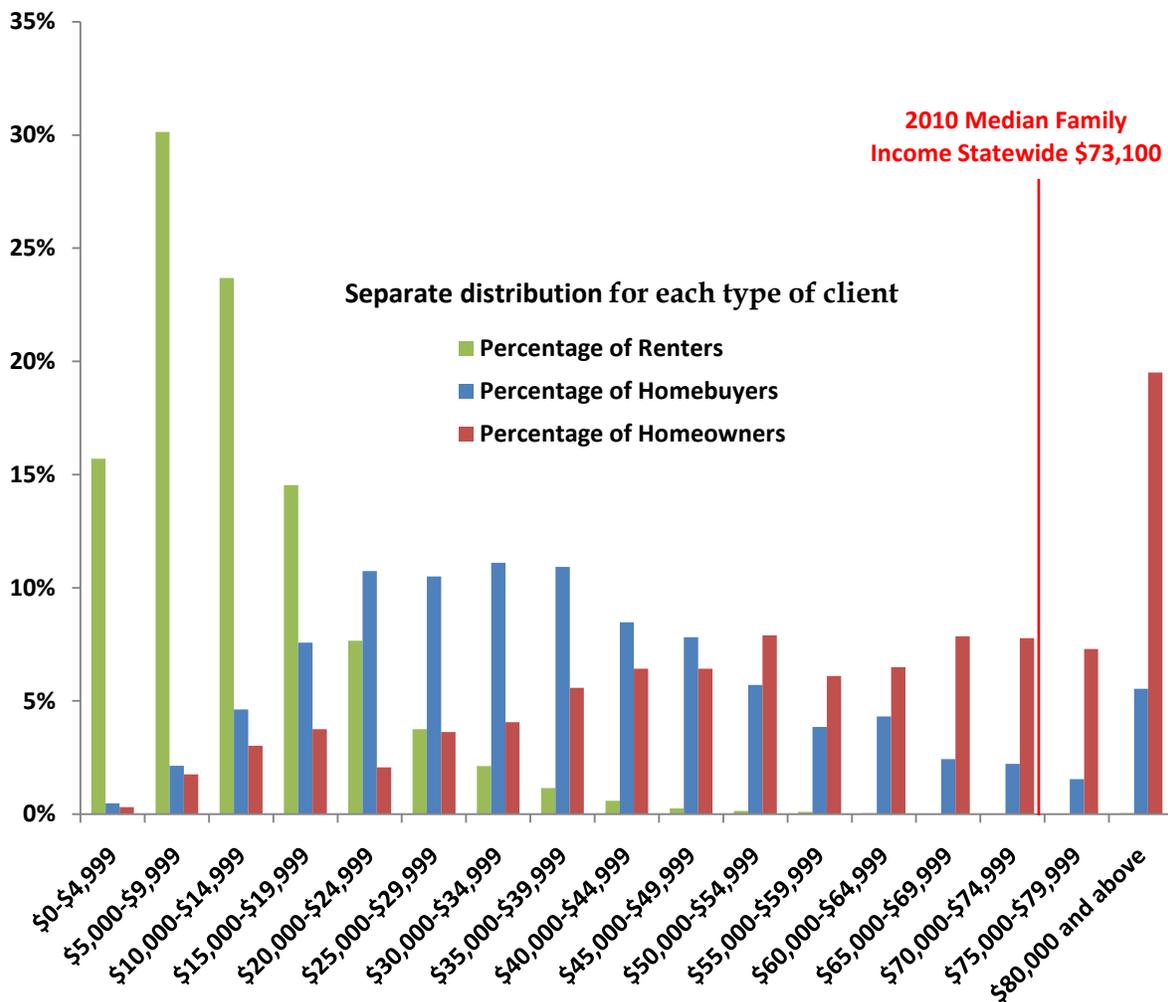


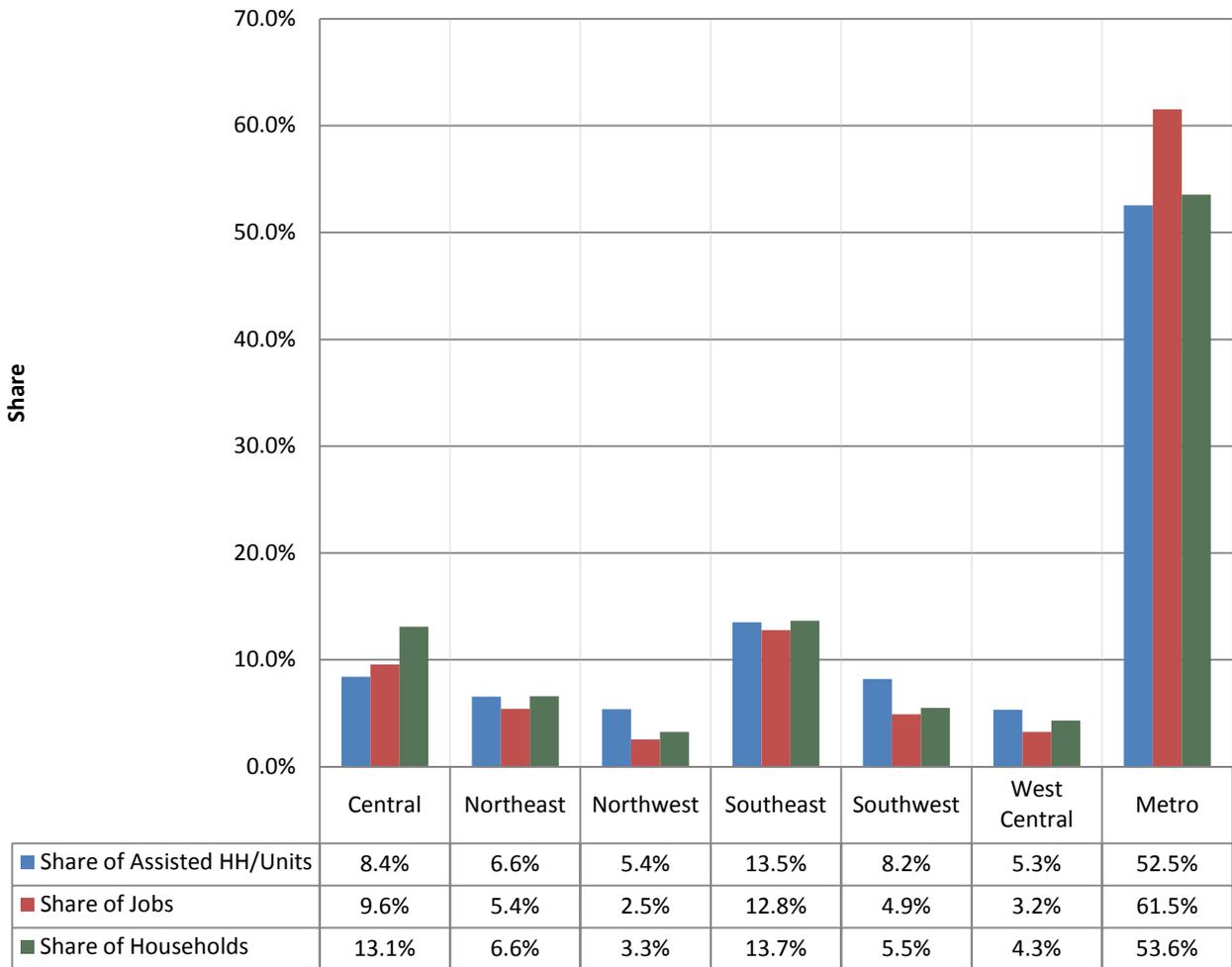
Table 4 presents the median income of households served by various Minnesota Housing programs in 2010.

Table 4: Median Incomes for a Sample of Minnesota Housing Programs - 2010

Program	Description	Median Income
Housing Trust Fund Rental Assistance	Rent assistance	\$7,276
Housing Trust Fund	Deferred capital loans or operating grants (Rental)	\$8,328
Bridges	Rent assistance	\$9,300
Affordable Rental Investment Fund - Preservation (PARIF)	Below-market deferred preservation loans	\$10,320
Section 8 - Performance Based Contract Administration	Project-based rent subsidy	\$10,470
Rehabilitation Loan Program - HOME	Interest-free deferred home-improvement loans	\$15,555
Low Income Housing Tax Credits	Federal income tax credits	\$17,585
Economic Development and Housing/Challenge Program	Below-market deferred loans (multifamily)	\$19,500
Rental Rehabilitation Program	Amortizing loans for rental rehabilitation	\$22,000
Low and Moderate Income Rental Program (LMIR)	Amortizing first-lien loans for rental housing	\$24,000
Community Revitalization Fund (CRV)	Grants and loans for single-family revitalization	\$33,088
HOME HELP	Entry cost assistance for home purchase	\$37,251
Community Activity Set Aside (CASA)	First-lien home purchase loans	\$40,380
Homeownership Assistance Fund (HAF)	Entry cost assistance for home purchase	\$41,880
Minnesota Mortgage Program	First-lien home purchase loans	\$42,200
Fix-Up Fund (FUF)	Amortizing home-improvement loans	\$62,289
Community Fix-Up Fund (CFUF)	Amortizing home-improvement loans	\$63,099
2010 Median Family Income - Statewide (from HUD)	Reference Point	\$73,100

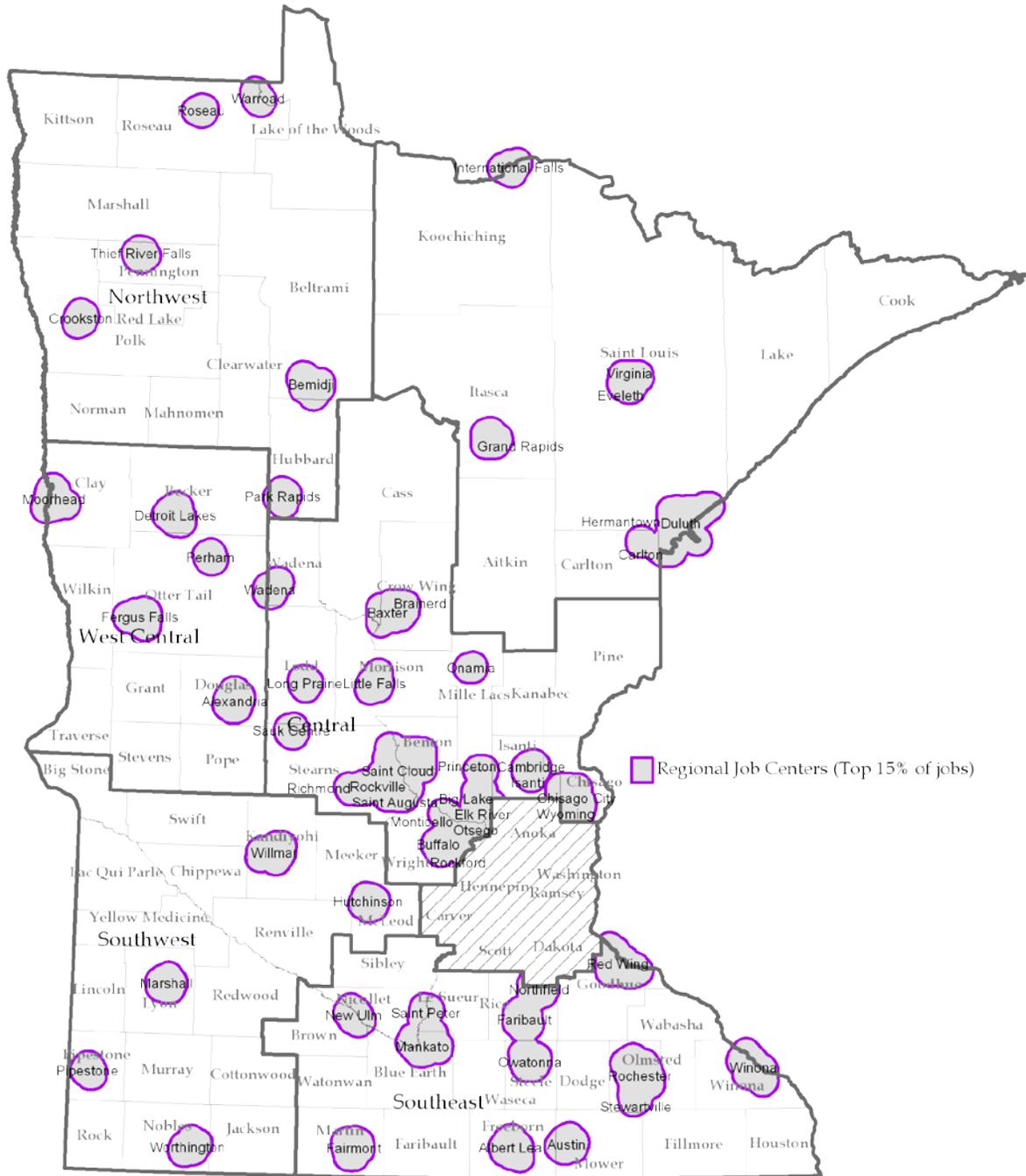
Minnesota also allocates housing resources evenly throughout the state. Each region’s share of households assisted by Minnesota Housing is usually very similar to its share all households and jobs. Figure 12 shows the share of assisted households (blue bars), jobs (red bars), and all households (green bars) in the region.¹⁴ For example, the Northeast Region has 6.6% of the Minnesota Housing assisted households, 5.4% of the state’s jobs, and 6.6% of the state’s households. The Metropolitan Region of the Twin Cities has the only modestly large discrepancy. While its share of assisted households (52.5%) is similar to its share of the state’s households (53.6%), the share of assisted households is substantially less than the share of jobs (61.5%).¹⁵

Figure 12: Comparing Each Region’s Share of Assisted Households with Its Share of All Households and Jobs in the State



Within regions, Minnesota Housing also distributes resources relatively evenly between job centers and rural areas. Figure 13 shows the regional job centers in Greater Minnesota. Job centers are cities with a large number of jobs and include a five mile buffer around the city to capture households commuting into the cities.¹⁶

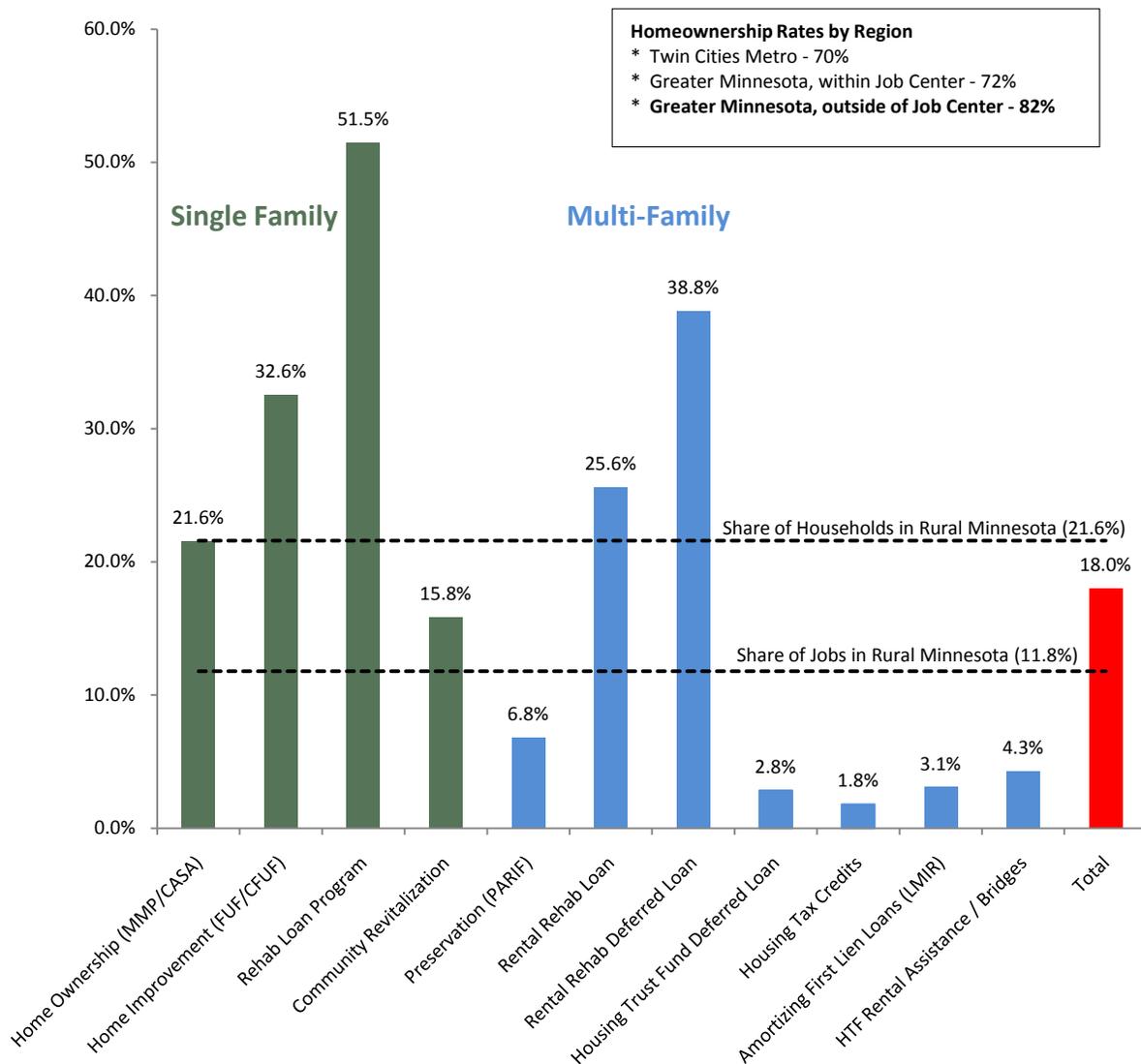
Figure 13: Job Centers in Greater Minnesota



Source: Internal analysis by Minnesota Housing Research. Created 8/25/2011

As shown by the dashed lines in Figure 14, the state’s rural areas (outside the job centers in Greater Minnesota) have 21.6% of the state’s households and 11.8% of the jobs.¹⁷ Overall, 18.0% of the households assisted by Minnesota Housing are in these rural areas (see red bar on the right side of the graph), which is between the rural areas’ share of the state’s households and jobs. Figure 14 also shows that these rural areas get a greater share of single-family homeownership assistance than multifamily rental funding (the green bars are generally higher than the blue bars), which is consistent with the fact that homeownership rates in rural areas are higher than other parts of the state, 82% in rural areas compared with 73% statewide. The figure also shows that rural areas receive a greater share of rehabilitation (single family and multifamily) and home improvement funds – Fix-up Fund (FUF) and Community Fix-up Fund (CFUF).

Figure 14: Share of Assisted Households Statewide in Rural Minnesota (Outside Regional Job Centers in Greater Minnesota)



Long-Term Financial Sustainability

Besides financing and advancing affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities, Minnesota Housing must also maintain its long-term financial stability. Immediate affordable housing needs must be balanced with future needs. To ensure long-term financial sustainability, Minnesota Housing has developed Board-approved guidelines for the amount of agency funds available for investment under the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3/Foundation). The guidelines (outlined in detail in **Appendix B**) ensure that the agency maintains sufficient assets to pay its debt obligations, provide adequate reserves against loan losses, administer programs, and generate earnings for future housing investments. Despite very unstable housing and financial markets, Minnesota Housing has put itself in a strong financial position going into the future, which is affirmed by the agency's Aa1/AA+ bond ratings.

Summary of Program and Policy Highlights

As this plan highlights, Minnesota Housing is addressing multiple housing challenges across the state with a range of tools and strategies. To add to the agency's existing tool box, this plan includes some new initiatives that emphasize preservation and community recovery.

- **Rehabilitation of naturally-affordable rental housing in Greater Minnesota.** A new method of distributing resources for rental rehabilitation will be launched as a pilot program (Rental Rehabilitation Deferred Loan) in late 2011. This activity was budgeted in the previous Affordable Housing Plan as the pilot program concept was being developed. The pilot will help the agency determine the best methods for meeting this important community need in the future.
- **Federally assisted rental housing preservation.** The plan includes \$20 million under the Low and Moderate Income Rental (LMIR) program for conduit financing (issuing bonds on the behalf of others) to preserve federally assisted housing. This program brings a currently underutilized resource – tax exempt bonds - to the agency's preservation efforts. It will focus on housing developments with minimal gap financing needs. The purpose of the conduit financing is to streamline the process a portfolio owner may need to go through to restructure multiple properties in multiple jurisdictions, saving both time and costs.
- **Community recovery financing.** Two new community recovery financing products identified by external stakeholders are funded under the plan to address community destabilization conditions resulting from the foreclosure crisis.
 - The plan includes \$2.5 million for a home improvement loan program that allows loan-to-value ratios in excess of the current limit of 110% under the Fix-Up Fund program. This program will assist homeowners who have strong credit histories but are unable to obtain a loan for needed repairs and energy improvements due to the declining housing market in their community. The program will be targeted to areas with concentrations of foreclosures or areas in which a sizeable number of mortgages exceed the current value of the homes. The budget for this program takes into account start-up time and the one-year timeframe of this Affordable Housing Plan. Funding for this pilot is expected to continue into the period of the next Affordable Housing Plan.

- In addition, the plan makes available \$10.4 million under the Economic Development and Housing/Challenge program for a financing tool that is an alternative to mortgage loans to help reduce the for-sale inventory in neighborhoods stressed by the foreclosure crisis. This community recovery financing program will build on an existing program and operate in partnership with the Family Housing Funds and philanthropic funding partners. The program will provide financing to bring to scale a shorter-term (less than 10 years) home purchase program modeled after the “Bridges-to Success” program (an alternative finance program developed by Dayton’s Bluff Neighborhood Housing Services and the Greater Metropolitan Housing Corporation). Non-agency resources will be used to assume the top loss position in the event of default or an extension of the loan.

With the introduction of the recovery financing program, the Homeownership Opportunity Program, which was developed as a foreclosure recovery tool to provide short-term acquisition and rehabilitation financing for foreclosed properties to bring them into mortgageable condition, will be discontinued because it was underutilized.

Other key commitments include:

- **Preventing and ending homelessness.** The agency’s commitment to the strategic priority to prevent and end homelessness is reflected in the \$1.6 million in Pool 3 resources budgeted for the Ending Long-term Homelessness Initiative Fund (ELHIF). These funds are a portion of the amount remaining uncommitted from the previous allocations totaling \$57.5 million in agency resources for this effort.
- **Resident owned manufactured home parks.** Efforts to convert manufactured home parks to resident owned parks will be supported in the plan with \$6 million in Pool 2 resources and administered out of the Economic Development and Housing/Challenge program.
- **Nonprofit organizational support.** The plan includes support for vital community nonprofit partners with funding from the HOME program and with agency resources from the Technical Assistance and Operating Support program.
- **Efficient use of HOME program funds.** The plan also allocates federal HOME funds to different activities than the previous plan as part of an effort to contain administrative costs for the agency and local administrators. The proposed allocation will use HOME funds for projects with larger financing needs, thereby reducing the number of individual loans subject to HOME compliance requirements, and promote the coupling of HOME funds with other programs that have similar compliance requirements.

As a result of the change in HOME allocations, nearly \$13 million in HOME funds will be used for preservation of rental housing, targeting federally assisted housing developments, which represents 62% of HOME funds allocated under this plan. Single-family rehabilitation activities, which were funded with HOME dollars in the previous plan, will be funded with a carry forward of unobligated state appropriations in this plan.

Next Steps

Adoption of a one-year Affordable Housing Plan gives the agency the opportunity to refine its Strategic Plan, complete research and policy analysis contemplated in the current Strategic Plan and develop a new Affordable Housing Plan that reflects this work. Among the issues to be addressed in upcoming months are the following:

- **Reengineering preservation policies, procedures, and tools.** This project will coordinate the Multifamily Division's preservation-related initiatives and implement best practices. A key outcome of the project will be improved preservation policies, procedures, and tools concerning prioritization, which will support proactive, preventative, and sustainable housing policies and practices. These efforts will be assisted by the following initiatives:
 - **Property Online Reporting Tool (PORT).** A new information technology tool (PORT) is being implemented and will consolidate a wide range of information about the agency's housing tax credit and deferred loan portfolio. PORT will streamline reporting and compliance monitoring tasks through a web-based application accessible to both owners and agency staff.
 - **Preservation risk assessment tool.** This risk assessment tool will collect operating data from properties within the agency's deferred loan portfolio and provide trends, benchmarks, and criteria to better anticipate preservation needs. The tool will be integrated into PORT. The development of the tool was funded by the MacArthur Foundation and is one part of the Minnesota Preservation Plus Initiative.
 - **Database of state and federally assisted housing.** The database, which is in the concept phase, will pull together data on all the federal and state funded housing developments in Minnesota and include information for identifying and prioritizing preservation needs
- **Housing needs assessment.** Using detailed data from the 2010 Census, American Community Survey, and other sources, the agency will assess the state's housing needs for the next decade. This analysis will provide key information in framing the next Affordable Housing Plan.
- **Expansion of rental assistance opportunities for homeless and at-risk households.** State appropriations for this activity have plateaued. Rental assistance has been shown to be an effective tool in providing housing opportunities for homeless and at-risk households. HOME program funds have been used for this activity in other jurisdictions. An in-depth understanding of the mechanics of using HOME funds for this activity is necessary before an allocation of HOME funding is requested.
- **Supportive housing service funding.** Funding for the supportive services has proven to be much more difficult to secure than the capital funding. It is the lack of supportive services funding more than anything else that is slowing efforts to provide supportive housing for the households experiencing homelessness. Making inroads on this problem will impact future supportive housing activities undertaken by the agency.
- **Senior-friendly housing.** Minnesota Housing's rental portfolio contains housing for the elderly and disabled, and the Rehabilitation Loan program funds home improvements for many seniors. However, with the retirement of the baby boom generation, the agency needs to reassess how it

serves low- and moderate-income seniors. Much of the research on the aging population indicates that community-based options are the most desirable housing options, such as adaptations to existing housing and provision of accessible housing in non-age segregated developments. Staff will collaborate with the Department of Human Services and other appropriate agencies to explore strategies to meet the aging population's housing needs and develop appropriate policies.

- **Mortgage Market Changes.** The housing and mortgage markets remain under stress, and significant changes are likely to continue to occur that may impact the agency's mortgage business. Besides the scheduled expiration of the New Issue Bond Program, Congress is considering significant changes to federal mortgage insurance and guarantee programs and to the structure of the national secondary market, both of which could have an impact on the way the agency conducts its mortgage business. During the next year, the agency plans to monitor and respond to continued changes in the market as well as conduct an overall review of its mortgage products to assure it continues its strong, mission-driven place in the Minnesota mortgage market.
- **Down-payment and closing-cost assistance refinements.** It is unlikely that the current levels of usage of entry cost assistance can be sustained for the long-term. The current programs will be reviewed to ensure that the programs are as efficiently responsive to current conditions as possible.
- **Improved energy efficiency/reduced operating costs of rental housing.** The agency is a partner in a project to benchmark energy usage costs in affordable rental housing developments and gather data on the savings achieved with energy conservation measures. Providing rental property owners with clear data on their energy usage and potential cost savings from retrofits is the most effective tool in encouraging owners to undertake energy conservation improvements. This information will help inform the types of rehabilitation/asset management activities the agency encourages or expects.

¹ Figures are from the U.S. Department of Commerce's Bureau of Economic Analysis, July 29, 2011 News Release (BEA 11-38) and September 29, 2011 News Release (BEA 11-49).

² Of the ten recessions between World War II and 2006, six had an average annualized growth rate of over 6% in the four quarters following the end of the recession. In addition, the growth rate in the year following all ten recessions averaged 6.6%. In contrast, the growth rate in the year following the most recent recession was only 3.3%, which is consistent with the long-term growth rate of the U.S. economy, not a robust growth rate associated with significant job growth after a recession.

³ Freddie Mac, *Primary Mortgage Market Survey*, as reported by the Federal Reserve Bank in <http://www.federalreserve.gov/releases/h15/data.htm>.

⁴ Minnesota Housing analysis of sheriff sales data from HousingLink.

⁵ Minnesota Housing analysis of data from the Minneapolis Area Association of Realtors.

⁶ CoreLogic, "New CoreLogic Data Shows Slight Decrease in Negative Equity," June 7, 2011/

⁷ Federal Reserve Bank of St. Louis, *Economic Synopses: Housing's Role in a Recovery*, no. 6 - 2011 (February 24, 2011); <http://research.stlouisfed.org/publications/es/11/ES1106.pdf>. In the long run, residential investments have on average contributed 3 basis points to GDP growth; however, excluding the recent recession, residential investments have contributed at least 50 basis points to GDP in the two years following a recession.

⁸ Minnesota Housing analysis of data from the U.S. Census Bureau's *American Community Survey* (2010).

⁹ Minnesota State Demographic Center.

¹⁰ Minnesota Housing analysis of data from Marquette Advisors, *Apartment Trends*.

¹¹ Minnesota Housing analysis of sheriff sales data from HousingLink.

¹² The reduction in zip codes applies to the RFP and Tax Credit selection process. To manage the use of entry cost assistance, Minnesota Housing further reduced the number of high need zip codes to 50 for the Homeownership Assistance Fund (HAF).

¹³ The listed thresholds are generalized statewide benchmarks. The actual thresholds depend on the area median income (AMI) in a specific county or metropolitan area and the following benchmarks: (1) 30% of AMI for extremely low income, (2) 50% of AMI for very low income, and (3) 80% of income for low income.

¹⁴ The number of jobs is based on data from the unemployment insurance program. Jobs that do not pay into the program, such as the self employed, are excluded from the count.

¹⁵ The analysis applies to Minnesota Housing's largest programs, including Minnesota Mortgage Program, Fix-up Fund, Rehabilitation Loan Program, Community Revitalization, PARIF, Rental Rehabilitation Loan Program, Housing Trust Fund, Housing Tax Credits, Low and Moderate Income Rental, and Bridges.

¹⁶ To identify regional job centers in Greater Minnesota, Minnesota Housing staff identified the top 15% of census tracts in the state in terms of number of jobs. The cities that contain these census tracts were selected with the addition of a five mile buffer outside the city to capture households commuting into the city.

¹⁷ The jobs data excludes the self employed, including farmers. According to the USDA Census of Agriculture, Minnesota had 72,577 farms that were classified as “Individual/Family Sole Proprietorships” “Family Held Corporations” in 2007. Assuming two family jobs per farm, self-employed farmers accounted for 5.2% of the workforce in 2007. Not all these self-employed farmers live in the rural area identified in Figure 13; some live in the metro area and the five-mile commuter shed around regional job centers. Furthermore, other self-employed workers (which would likely be concentrated in the metro area and job centers) are excluded from the count. In the end, rural area’s share of jobs may be a couple percentage points higher than 11.8% if all jobs were included.

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**2012 Affordable Housing Plan
Appendix A: Program Funding by Source**

Appendix A: Program Funding by Source - Affordable Housing Plan - October 1, 2011 through September 30, 2012

	Federal Resources	State Appropriations	Bond Proceeds	Housing Investment Fund		Housing Affordability Fund (Pool 3/ foundation)	Total	Estimated Outstanding Commitments/ Selections/Fees at 9/30/11		Estimated New Activity-Production
				(Pool 2)	(Pool 2)			Commissions/	Fees at	
Homebuyer										
1	Minnesota Mortgage Program (MMP and CASA)	\$0	\$0	\$300,000,000	\$0	\$0	\$300,000,000	\$50,000,000	\$250,000,000	\$250,000,000
2	Homeownership Assistance Fund (HAF)	\$0	\$1,965,425	\$0	\$0	\$4,461,575	\$6,427,000	\$1,267,525	\$5,159,475	\$5,159,475
3	HOME HELP	\$5,911,000	\$0	\$0	\$0	\$0	\$5,911,000	\$411,000	\$5,500,000	\$5,500,000
4	Single-Family Interim Lending	\$0	\$1,000,000	\$0	\$0	\$5,965,000	\$6,965,000	\$0	\$6,965,000	\$6,965,000
5	Habitat for Humanity Initiative	\$0	\$0	\$0	\$1,000,000	\$1,000,000	\$2,000,000	\$0	\$2,000,000	\$2,000,000
6	Homeownership Education, Counseling, and Training (HECAT)	\$2,133,630	\$1,681,040	\$0	\$0	\$0	\$3,814,670	\$2,234,188	\$1,580,482	\$1,580,482
Home Improvement										
7	Fix-Up Fund (FUF and CFUF)	\$0	\$0	\$0	\$22,055,275	\$465,000	\$22,520,275	\$2,055,275	\$20,465,000	\$20,465,000
8	Rehabilitation Loan Program	\$3,522,083	\$4,955,107	\$0	\$0	\$839,083	\$9,316,273	\$3,566,273	\$5,750,000	\$5,750,000
Rental Production - New Construction and Rehabilitation										
9	Low and Moderate Income Rental (LMIR)	\$0	\$0	\$61,966,785	\$84,016,395	\$0	\$145,983,180	\$77,983,180	\$68,000,000	\$68,000,000
10	Flexible Financing for Capital Costs (FFCC)	\$0	\$0	\$0	\$0	\$8,668,115	\$8,668,115	\$4,168,115	\$4,500,000	\$4,500,000
11	Low-Income Housing Tax Credits (LIHTC)	\$10,700,000	\$0	\$0	\$3,404,109	\$0	\$14,104,109	\$6,404,109	\$7,700,000	\$7,700,000
12	Affordable Rental Preservation (PARIF and HOME)	\$12,954,972	\$14,907,986	\$0	\$0	\$0	\$27,862,958	\$5,831,787	\$22,031,171	\$22,031,171
13	Rental Rehabilitation Deferred Loan Pilot Program	\$0	\$9,511,000	\$0	\$0	\$597,585	\$10,108,585	\$0	\$10,108,585	\$10,108,585
14	Rental Rehabilitation Loan Program	\$3,387,000	\$0	\$0	\$1,082,735	\$0	\$4,469,735	\$3,469,735	\$1,000,000	\$1,000,000
Rental Assistance Contract Administration										
15	Section 8 - Performance Based Contract Administration (PBCA)	\$105,000,000	\$0	\$0	\$0	\$0	\$105,000,000	\$0	\$105,000,000	\$105,000,000
16	Section 8 - Traditional Contract Administration (TCA)	\$75,000,000	\$0	\$0	\$0	\$0	\$75,000,000	\$0	\$75,000,000	\$75,000,000
17	Section 236	\$1,625,000	\$0	\$0	\$0	\$0	\$1,625,000	\$0	\$1,625,000	\$1,625,000

Appendix A: Program Funding by Source - Affordable Housing Plan - October 1, 2011 through September 30, 2012

	Federal Resources	State Appropriations	Bond Proceeds	Housing Investment Fund (Pool 2)	Housing Affordability Fund (Pool 3/ foundation)	Total	Estimated	
							Outstanding Commitments/ Selections/Fees at 9/30/11	Activity-Production
Non-Capital Resources to Prevent and End Long-Term Homelessness								
18		\$0	\$20,888,894	\$17,000,000	\$0	\$37,888,894	\$27,816,903	\$10,071,991
19		\$0	\$0	\$0	\$12,511,075	\$12,511,075	\$10,912,475	\$1,598,600
20		\$0	\$2,722,285	\$0	\$0	\$2,722,285	\$15,889	\$2,706,396
21		\$0	\$7,515,095	\$0	\$0	\$7,515,095	\$26,599	\$7,488,496
22		\$347,575	\$0	\$0	\$0	\$347,575	\$207,754	\$139,821
Portfolio Management								
23		\$0	\$0	\$253,577	\$3,716,398	\$3,969,975	\$469,975	\$3,500,000
24		\$4,484,108	\$0	\$0	\$0	\$4,484,108	\$3,609,093	\$875,015
Multiple Use Resources								
25		\$0	\$36,354,463	\$0	\$0	\$78,754,463	\$50,921,969	\$27,832,494
26		\$924,378	\$269,666	\$0	\$2,318,895	\$3,512,939	\$206,895	\$3,306,044
27		\$0	\$0	\$0	\$5,320,000	\$5,320,000	\$0	\$5,320,000
Other								
28		\$1,706,306	\$0	\$0	\$0	\$1,706,306	\$300,000	\$1,406,306
29		\$0	\$1,238,761	\$0	\$0	\$1,238,761	\$0	\$1,238,761
30		\$0	\$1,028,718	\$0	\$0	\$1,028,718	\$735,897	\$292,821
31		\$0	\$1,617,461	\$0	\$0	\$1,617,461	\$1,494,586	\$122,875
Programs in Run-Off Status								
32		\$12,413,934	\$0	\$0	\$0	\$12,413,934	\$12,413,934	\$0
33		\$0	\$9,764,382	\$0	\$0	\$9,764,382	\$9,764,382	\$0
34		\$0	\$888,256	\$0	\$0	\$888,256	\$888,256	\$0

Appendix A: Program Funding by Source - Affordable Housing Plan - October 1, 2011 through September 30, 2012

	Federal Resources	State Appropriations	Bond Proceeds	Housing Investment Fund (Pool 2)	Housing Affordability Fund (Pool 3/ foundation)	Total	Estimated Outstanding Commitments/ Selections/Fees at 9/30/11	Estimated New Activity-Production
35 HUD Sustainable Communities	\$220,000	\$0	\$0	\$0	\$0	\$220,000	\$220,000	\$0
36 Federal Special Projects	\$112,691	\$0	\$0	\$0	\$0	\$112,691	\$112,691	\$0
Total Budget, New and Old Activity	\$240,442,676	\$116,308,539	\$379,220,362	\$153,958,514	\$45,862,726	\$935,792,817	\$277,508,485	\$658,284,333
Outstanding Commits/Selects/Fees/ at 9/30/11 (Estimated)	\$29,317,185	\$57,751,966	\$89,220,362	\$84,558,514	\$16,660,458	\$277,508,485	\$277,508,485	\$0
Total Budget, New Activity Only	\$211,125,492	\$58,556,573	\$290,000,000	\$69,400,000	\$29,202,268	\$658,284,333	\$0	\$658,284,333

NOTES:

- (1) Includes Community Activity Set-Aside Program (CASA), Minnesota City Participation Program (MCPP), and Minnesota Mortgage Program (MMP).
- (4) Based on 2011 board-approved reallocations from Interim Lending budget of \$7 million to HAF. 7/11 - 485,000 8/11 - 550,000
- (6) Includes Emergency Homeowner Loan Program, NFMC, and HECA
- (9) LMIR new bond issues budget: \$20 million (includes "b" bonds to meet 50% test for tax credits) and \$20 million for Conduit bond issues.
- (10) Includes FCCC budget \$1.5 million and \$3 million for shallow subsidy HUD insured or Conduit deals.
- (11) Includes Tax Credits, TCAP & 1602 exchange, and Bridge Loans, New Bridge Loans, New Bridge Loans not being funded.
- (14) Includes Old HOME Rental Rehab, and Pool 2 Rental Rehab.
- (18) Includes HTF and 501c3 bonds.
- (25) Pool 2 EDHC includes the following budgeted amounts: manufactured home park conversions - \$6 million, Community Recovery Finance - \$10.4 million, and MyHomeSource - \$3 million - revolving.
- (26) Includes HOME CHDO Operating Grants, Capacity Building Grants-State A appropriation, Technical Assistance Fund from Pool 3, and HMIS and EHP Technical Assistance.

RESOLUTION NO. MHFA 09- 55

RESOLUTION AMENDING RESOLUTION NO. MHFA 07-16 REGARDING
NET ASSET REQUIREMENTS AND INVESTMENT GUIDELINES
FOR GENERAL RESERVE ACCOUNT ASSETS

WHEREAS, the Agency must remain fiscally responsible and avoid unreasonable risks in order to continue to be self-sustaining, to honor debt obligations and to achieve its mission; and

WHEREAS, proceeds from the sale of housing revenue bonds are the Agency's principal resource for providing housing loans; and

WHEREAS, housing loans made from the proceeds of housing revenue bonds are the principal revenue-generating activity of the Agency; and

WHEREAS, the loss or impairment of the ability to issue housing revenue bonds or to do so cost effectively would undermine the Agency's ability to remain financially self-sustaining and to finance housing for low- and moderate-income households; and

WHEREAS, the Agency has accumulated and maintained a balance of assets that is available to pay its debt obligations, to provide adequate reserves against loan losses, and to provide for the administration of programs, a portion of which assets must be maintained within the Agency's Bond Resolutions and the remainder of which must be maintained within the General Reserve Account; and

WHEREAS, assets in the General Reserve Account can be used only for the administration and financing of housing programs in accordance with the policy and purposes of Minnesota Statutes, Chapter 462A, as amended; and

WHEREAS, the Agency adopted Resolution MHFA No. 07-16, on April 26, 2007, to provide net asset requirements and investment guidelines in order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans; and

WHEREAS, because of changes in generally acceptable accounting principles that take effect in the current fiscal year and because of the change effective September 1, 2009 to a mortgage-backed securities lending model for its single family mortgage programs, the Agency finds it desirable to amend Resolution MHFA No. 07-16 to clarify the amount of assets to be held in Pool 2 (Housing Investment Fund), effective for the fiscal year of the Agency beginning July 1, 2009.

NOW, THEREFORE, BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

1. The third paragraph of Section 1 of Resolution MHFA No. 07-16 is hereby amended to read as follows:
 - Pool 2 (Housing Investment Fund): An amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3 and exclusive of all unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and interest rate hedges entered into by the Agency for which the unrealized loss or gain will not be realized if the security or interest rate hedge is held to maturity or its optional termination date) to be the greater of \$615 million or the combined net assets of the same funds for the immediately preceding audited fiscal year end. Assets will be invested in investment quality housing loans or investment grade securities. Assets of Pool 2 will be held in the bond funds.
2. Except for the amendment effected in Section 1, the provisions of Resolution MHFA No. 07-16 shall remain in full force and effect.

Adopted this 24th day of September, 2009.



CHAIRMAN

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 07-16

RESOLUTION AMENDING RESOLUTION NO. MHFA 88-7 REGARDING
NET ASSET REQUIREMENTS AND INVESTMENT GUIDELINES
FOR GENERAL RESERVE ACCOUNT ASSETS

WHEREAS, the Agency must remain fiscally responsible and avoid unreasonable risks in order to continue to be self-sustaining, to honor debt obligations and to achieve its mission; and

WHEREAS, proceeds from the sale of housing revenue bonds are the Agency's principal resource for providing housing loans; and

WHEREAS, housing loans made from the proceeds of housing revenue bonds are the principal revenue-generating activity of the Agency; and

WHEREAS, the loss or impairment of the ability to issue housing revenue bonds or to do so cost effectively would undermine the Agency's ability to remain financially self-sustaining and to finance housing for low- and moderate-income households; and

WHEREAS, the Agency has accumulated and maintained a balance of assets that is available to pay its debt obligations, to provide adequate reserves against loan losses, and to provide for the administration of programs, a portion of which assets must be maintained within the Agency's Bond Resolutions and the remainder of which must be maintained within the General Reserve Account; and

WHEREAS, assets in the General Reserve Account can only be used for the administration and financing of housing programs in accordance with the policy and purposes of Minnesota Statutes Chapter 462A; and

WHEREAS, the Agency finds it desirable to restructure its funds to more clearly distinguish its sustainable lending investments from its mission-intensive investments.

NOW THEREFORE, be it resolved:

1. That in order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans, Resolution No. MHFA 88-7 is amended to provide for the following net asset requirements and investment guidelines for assets available to the General Reserve Account

- Pool 1 (Housing Endowment Fund): An amount equal to 1% of loans outstanding (excluding loans in Pool 3) will be invested in short-term, investment grade securities at market interest rates. Assets of Pool 1 will be held in the General Reserve Account.
- Pool 2 (Housing Investment Fund): An amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3) to be the greater of \$615 million or the combined net assets of the same funds for the immediately preceding audited fiscal year end. Assets will be invested in investment quality housing loans or investment grade securities. Assets of Pool 2 will be held in the bond funds.
- Pool 3 (Housing Affordability Fund): Net assets in excess of the required balances for Pools 1 and 2 may be invested in investment grade securities and used for programs not resulting in amortizing investment quality loans including, but not limited to:
 - Zero-percent loans;
 - Loans at interest rates substantially below market;
 - High risk loans;
 - Deferred loans;
 - Revolving funds; and
 - Grants and rental assistance.

Assets of Pool 3 will be held in the bond funds.

2. That the Agency will continually evaluate the investment policy contained herein in consideration of changes in the economy, credit ratings standards and the Agency's risk profile.

Adopted this 26th day of April, 2007, for implementation July 1, 2007



CHAIRMAN

2012 Affordable Housing Plan

Appendix C: Program Narratives

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Notes on reading the program narratives:

- “Housing Investment Fund” and “Pool 2” refer to the same resources.
- “Housing Affordability Fund” and “Pool 3/foundation” refer to the same resources.
- The projections for number of housing units or households assisted by programs during the Plan period exceed the total number of households projected to be served across all programs. This is because some households or housing units will receive assistance from multiple programs in order to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation.
- Several programs have multiple funding sources which may necessitate some differences in program rules depending on the funding sources.
- The italicized text below the program name indicates the strategic priorities met by the program.
- Programs in run-off are programs for which there is no new funding available for FFY 2012. Activity for these programs during FFY2012 is limited to disbursement of prior plan commitments.

Minnesota Mortgage Program (MMP and CASA)

Provide New Opportunities for Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

Under MMP, Minnesota Housing sells mortgage revenue bonds (MRB) to finance two mortgage programs. For purposes of the Plan, MMP refers to the Minnesota Mortgage Program and the Community Activity Set-Aside (CASA) program, both of which deliver first mortgages to eligible borrowers.

MMP provides a secondary market for below-market interest rate, fully amortizing first mortgage loans for low- and moderate-income first-time homebuyers. First mortgage lenders throughout the state originate the loans and sell them to a Master Servicer. The Master Servicer pools the loans into mortgage-backed securities purchased by Minnesota Housing. Mortgage interest rates for the program are determined regularly, based upon statewide mortgage market conditions, to provide a favorable rate to homebuyers while considering the Agency's borrowing costs. Under CASA, the Agency offers access to first mortgage and entry cost assistance funds for lenders and their community partners that form initiatives to address an Agency priority.

MMP, available statewide through participating lenders, typically serves the greatest number of borrowers with the largest amount of financing. In 2009 and 2010, due to a difficult housing market and with the availability of HAF and HOME HELP entry cost assistance, the number of CASA loans exceeded that of MMP.

Current income limits for 1-4 persons:

<u>Property Location</u>	<u>MMP</u>	<u>CASA</u>
Minneapolis/Saint Paul metro area	\$82,700	\$66,200
Rochester	\$80,200	\$64,200
Balance of State	\$72,900	\$58,350

Maximum loan amounts:

\$298,125 in the Minneapolis/Saint Paul metropolitan area

\$237,031 in the balance of the state

For the Program Assessment period of October 1, 2009 – September 30, 2010, Agency financing under MMP decreased to:

- 1,920 loans
- \$234,246,890 loan amount
- \$122,004 average loan
- median household income of borrowers was \$40,884 or 55.9 percent of statewide median
- 31 percent of households served were households of color

Program Performance and Trends

Adverse capital markets in recent years have limited Minnesota Housing's ability to raise capital effectively. Between 2008 and 2010, Minnesota Housing purchased fewer loans than in the past and intentionally managed its financing of mortgages under MMP and CASA to the resources available.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to finance loans for over 2,000 households under this program.

An alternative to mortgage loan financing will be available in 2012 (under the Economic Development and Housing/Challenge program) to help reduce the for-sale inventory in neighborhoods stressed by foreclosures.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Undisbursed Bond Proceeds	\$ -0-	\$ 50,000,000
New Housing Investment Fund Allocation	7,500,000	-0-
New Bond Issues	550,000,000	250,000,000
Total Sources	<u>\$ 557,500,00</u>	<u>\$ 300,000,000</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ 50,000,000
New Program Activity for Current Plan	557,500,000	250,000,000
Total Uses	<u>\$ 557,500,00</u>	<u>\$ 300,000,000</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 3; Minn. Stat. §462A.073; Minn. Rules, Parts 4900.3200-3290; IRC §143

Homeownership Assistance Fund (HAF)

Provide New Opportunities for Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

The Homeownership Assistance Fund (HAF) provides down payment and entry cost assistance to income eligible first-time homebuyers purchasing their homes through an Agency mortgage revenue bond program (i.e., the Minnesota Mortgage Program or the Community Activity Set Aside). A HAF loan is provided in the form of an interest-free, deferred second mortgage loan.

The current income limit is 60 percent of area or State median income unless participating under CASA where the limit is established at 80 percent of State or area median income; or a borrower can receive assistance if purchasing a home in a targeted area under MMP, where the limit currently is established at 100 percent of State or area median income.

Maximum loan amount: currently up to \$3,000 in entry cost assistance under MMP and \$4,500 under CASA

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing financed:

- 813 loans
- \$3,459,828 loan amount
- average loan was \$ 4,256
- median household income of borrowers was \$41,880 or 57.3 percent of statewide median
- 37.8 percent were households of color

Use of HAF has varied in recent years as the Agency has managed use of this limited resource. The percentage of MMP-assisted borrowers receiving HAF fluctuated from a high of 68 percent in 2002 to 42.3 percent in 2010. A variety of changes to HAF have been implemented, including the discontinued use of HAF monthly payment assistance in February 2009.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund loans for approximately 1,200 households under this program. Under the current structure of the HAF program, the demand should not exceed available funds; however, the Agency will continue to evaluate and respond to market conditions as necessary.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 382,575	\$ 18,425
Carry Forward of Housing Affordability Fund	568,525	1,261,575
Repayments of State Appropriations	2,000,000	1,150,000
New State Appropriations	1,720,000	797,000
New Housing Affordability Fund Allocation	<u>4,500,000</u>	<u>3,200,000</u>
Total Sources	<u>\$ 9,171,100</u>	<u>\$ 6,427,000</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 750,505	\$ 1,267,525
New Program Activity for Current Plan	<u>8,420,595</u>	<u>5,159,475</u>
Total Uses	<u>\$ 9,171,100</u>	<u>\$ 6,427,000</u>

Legal Authority: Minn. Stat. §462A.21, Subd. 8; Minn. Rules, Parts 4900.1300-1359

HOME Homeowner Entry Loan Program (HOME HELP)

Provide New Opportunities for Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

The HOME Homeowner Entry Loan Program (HOME HELP), which became available in May of 2008, provides down payment and closing cost assistance to qualifying low- and moderate-income first-time homebuyers. Funds are made available to borrowers and lenders participating in the Agency's Community Activity Set-Aside (CASA) program. To be eligible to participate in the program, lenders are required to demonstrate enhanced and effective targeting of program resources in accordance with Agency strategic goals.

HOME HELP is funded through the federal HOME program and must meet HOME requirements. Borrower assistance is provided in the form of an interest-free deferred loan, 70 percent of which is forgiven after the sixth anniversary of the loan. The remainder is repaid when the loan matures, the property is sold, or the property is no longer owner occupied.

Current income limit: 80 percent of county median income, adjusted for family size

Maximum loan amount: \$8,500

Program Performance and Trends

For the period of October 1, 2009 – September 30, 2010 Minnesota Housing funded:

- 433 loans
- \$4,989,863 loan amount
- average loan amount was \$11,524
- median household income of borrowers was \$37,251 or 51 percent of statewide median
- 49.4 percent of total households were of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund approximately 530 loans under this program. Shortly after October 1, 2011, Minnesota Housing staff will likely seek Board approval to increase the maximum loan limit to \$10,000.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal HOME Appropriations	\$ 4,868,994	\$ 4,917,212
Reallocation of previous Federal HOME Appropriations	823,945	-0-
New Federal HOME Appropriations	3,651,055	993,788
Total Sources	<u>\$ 9,343,994</u>	<u>\$ 5,911,000</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 2,574,833	\$ 411,000
New Program Activity for Current Plan	6,769,161	5,500,000
Total Uses	<u>\$ 9,343,994</u>	<u>\$ 5,911,000</u>

Legal Authority: Title II of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. 12701 et. seq.; 24 C.F.R 92

Single Family Interim Lending

Provide New Opportunities for Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

The Single Family Interim Lending Program combines activities known as the Innovative Housing Loan Program and the Partnership for Affordable Housing. This is a revolving fund of short-term financing at reduced interest rates used to support increasing the affordable housing supply. The program is designed to encourage innovations in the development or rehabilitation of single family housing and is delivered through partnership arrangements between the Agency, nonprofit housing providers and local lenders. Both nonprofit and for-profit sponsors and/or developers may apply for the program

Program Performance and Trends

Data on interim lending are included in data provided for the Community Revitalization Fund, which is the umbrella program under which Minnesota Housing currently delivers the Challenge Program and interim construction financing. The Community Revitalization Fund (CRV) as a whole has proven to be a valuable resource for increasing the housing supply for low-and moderate-income households.

For the Program Assessment period of October 1, 2009 – September 30, 2010, under CRV Minnesota Housing funded:

- 301 loans
- \$6,357,235 loan amount
- average loan was \$21,120
- median household income of borrowers was \$33,088 or 45.3 percent of statewide median
- 41 percent of total households served were households of color

Twenty-four percent of CRV units funded in 2010 were new construction.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing could make an estimated 50 construction loans.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Revolving State Appropriations	\$ 1,000,000	\$ 1,000,000
Revolving Housing Affordability Fund Allocation	7,000,000	5,965,000
Total Sources	<u>\$ 8,000,000</u>	<u>\$ 6,965,000</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ -0-
New Program Activity for Current Plan	8,000,000	6,965,000
Total Uses	<u>\$ 8,000,000</u>	<u>\$ 6,965,000</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 2 and Minn. Stat. §462A.05, Subd. 18; Minn. Rules, Parts 4900.1200-1210

Habitat for Humanity Initiative

Provide New Opportunities for Affordable Housing

The Habitat for Humanity Initiative (Habitat's Next 1,000 Homes Fund) provides a secondary market for interest-free loans originated by Habitat for Humanity Minnesota affiliates for households participating in the Habitat for Humanity Program throughout Minnesota.

Current income limit: Less than or equal to 50 percent of the greater of State or area median income. Limits are set by Habitat and are lower than those set by Minnesota Housing.

Maximum loan amount: Limits are set by Habitat and are lower than those set by Minnesota Housing.

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- 24 loans
- \$1,995,461 loan amount
- average Minnesota Housing funding per household was \$83,144
- median household income of borrowers was \$33,770 or 46.2 percent of statewide median
- 83.3 percent of total households served were households of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund loans for approximately 20 households under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
New Housing Investment Fund Allocation	\$ 2,000,000	\$ 1,000,000
New Housing Affordability Fund Allocation	2,000,000	1,000,000
Total Sources	<u>\$ 4,000,000</u>	<u>\$ 2,000,000</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ -0-
New Program Activity for Current Plan	4,000,000	2,000,000
Total Uses	<u>\$ 4,000,000</u>	<u>\$ 2,000,000</u>

Legal Authority: Minn. Stat. §462A.21, Subd. 5

Homeownership Education, Counseling and Training Fund (HECAT)

Provide New Opportunities for Affordable Housing • Preserve Existing Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

The Homeownership Education, Counseling and Training Fund (HECAT) program provides financial support to eligible nonprofit organizations or public agencies offering comprehensive homebuyer/owner training on a pre- or post-purchase basis. It also assists individuals facing foreclosure due to a temporary financial crisis by providing counseling services (funded in part through the National Foreclosure Mitigation Counseling program). The Agency awards appropriations through a combined Request for Proposals in cooperation with the Family Housing Fund, the Greater Minnesota Housing Fund, and the Minnesota Home Ownership Center as funding partners.

Current income limit: none, but participants with incomes less than or equal to 60 percent of area median are encouraged.

Program Performance and Trends

Resources include State appropriations, contributions from funding partners, federal grant funds, and anticipated repayments. For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- 21,661 households
- \$5,258,293 funding amount
- average assistance per household was \$243
- median household income of participants was \$39,965 or 54.7 percent of statewide median
- 37.8 percent of total households served were households of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund education or counseling for approximately 6,700 households under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal Appropriations	\$ 2,740,989	\$ 2,133,630
Carry Forward of State Appropriations	731,263	130,040
Contributions from Funding Partners	1,500,000	750,000
Repayments	100,000	50,000
New State Appropriations	<u>1,730,000</u>	<u>751,000</u>
Total Sources	<u>\$ 6,802,252</u>	<u>\$ 3,814,670</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 3,349,459	\$ 2,234,188
New Program Activity for Current Plan	<u>3,452,793</u>	<u>1,580,482</u>
Total Uses	<u>\$ 6,802,252</u>	<u>\$ 3,814,670</u>

Legal Authority: Minn. Stat. §462A.209

Fix-Up Fund and Community Fix-Up Fund (FUF and CFUF)

Preserve Existing Affordable Housing

The Fix-up Fund provides below-market interest rate, fully amortizing home improvement loans to assist low- and moderate-income homeowners in improving the livability and energy efficiency of their homes. Loan interest rates are determined based upon interest rates that are offered on similar products by lenders. Loans are delivered by a network of participating lenders throughout the State.

Loan-to-value limits for the program are at 110 percent of the after-improved value of the property. A component of the program waives the income and equity limits when the improvements will enable a resident with a disability to reside in the property.

The Community Fix-up Fund (CFUF) is a sub-program of the Fix-up Fund. The Community Fix-up Fund supports local initiatives and partnerships with a slightly lower interest rate and a higher lender processing fee than the Fix-Up Fund. Lenders participating in the Fix-up Fund may apply to access CFUF for targeted activities that meet locally defined home improvement needs and objectives. Eligible targeted activities may include matching funds and discount loan programs, nonprime loans in conjunction with credit and budget counseling, initiatives that focus funds on specific improvement types or older homes, or other home improvement needs determined within a community or neighborhood.

In 2010 and 2011, Minnesota Housing provided Energy Saver Rebates to eligible Fix-up Fund and CFUF borrowers in cooperation with the Department of Commerce. Rebates were funded with federal stimulus funds provided to Minnesota under the American Recovery and Reinvestment Act of 2009.

Current income limit: \$95,150

Maximum loan amount: \$35,000

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing financed:

Fix-Up Fund

- 1,929 Fix-Up Fund loans
- \$24,621,258 Fix-Up Fund loan amount
- average Fix-Up Fund loan was \$13,801
- median household income of borrowers was \$62,289 or 85.2% of statewide median
- 6.1% of total were households of color

Community Fix-Up Fund

- 320 CFUF loans
- \$4,313,565 CFUF loan amount
- average CFUF loan was \$13,480
- median household income of borrowers was \$63,099 or 86.3% of statewide median
- 10.9% of total were households of color

Due to difficult economic conditions, in the two years prior to the availability of the Energy Saver Rebate, the Agency financed an average of 850 loans annually. Production increased 156 percent from 2009 to 2010 due to availability of the rebate. For the first nine months of FFY 2011 the Agency financed 1,126 Fix-Up Fund loans in the amount of \$14,565,907; however, a decline in home improvement loan production is anticipated because rebate funds were exhausted late in 2011.

For the first nine months of 2011, the Agency financed 190 CFUF loans in an amount of \$2,173,455. Availability of the Energy Saver Rebate Production resulted in a 59 percent increase in CFUF production from 2009 to 2010; however, a decline is anticipated going forward (production has declined annually since 2003 under CFUF).

In 2010, Minnesota Housing financed five non-prime CFUF loans (less than two percent of total) in the amount of \$94,639 for an average loan amount of \$18,928.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to finance loans for approximately 1,220 households under this program. If additional federal rebate funds became available to Minnesota, estimated loan production would increase.

With the continued effects of declining property values, many homeowners have been ineligible for home improvement loans due to negative equity. Minnesota Housing will make financing available in 2012 for owners with strong credit histories who need improvement loans with loan-to-value ratios in excess of 110 percent.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Investment Fund	\$ 1,724,820	\$ 2,055,275
New Housing Affordable Fund Allocation	-0-	465,000
New Housing Investment Fund Allocation	45,500,000	20,000,000
New Federal Energy Stimulus Funds	7,650,000	-0-
Total Sources	<u>\$ 54,874,820</u>	<u>\$ 22,520,275</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 1,724,820	\$ 2,055,275
New Program Activity for Current Plan	53,150,000	20,465,000
Total Uses	<u>\$ 54,874,820</u>	<u>\$ 22,520,275</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 15; Minn. Rules, Parts 4900.0610-0700

Rehabilitation Loan Program

Preserve Existing Affordable Housing

The Rehabilitation Loan Program provides interest-free, deferred loans to low-income homeowners to finance home improvements directly affecting the safety, habitability, energy efficiency and accessibility of their homes. The program is administered by local agencies that contract to deliver the program in accordance with statute and program requirements. Federal HOME funds became the primary resource for this program in 2010-2011.

Current income limit: adjusted by household size (\$24,850 for a 4-person household). Maximum loan amount: \$24,999. \$10,000 may be added to meet lead paint reduction requirements. Additional funds may also be available for emergency repairs or accessibility improvements.

Program Performance and Trends

Program terms changed due to federally mandated HOME rules, which resulted in a decrease in production as administrators became acquainted with new program rules and procedures. For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- 190 loans
- \$2,418,823 loan amount
- average loan was \$12,731
- median household income of borrowers was \$13,552 or 18.5 percent of statewide median
- 7.4 percent of total were households of color

Proposal for 2012

For administrative ease, the Rehabilitation Loan Program will be funded with uncommitted carry forward balances of state appropriations for 2012, rather than federal HOME funds. With less complicated rules and procedures, production should increase to 240 loans.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 2,822,057	\$ 4,205,107
Reallocation of Previous Federal HOME Allocations	3,175,000	-0-
Repayments of State Appropriations	1,500,000	750,000
New Affordability Fund Allocation	-0-	839,083
New Federal HOME Appropriations	6,447,022	-0-
Carry Forward of Federal HOME Appropriations	-0-	3,522,083
Total Sources	<u>\$ 13,944,079</u>	<u>\$ 9,316,273</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 2,822,057	\$ 3,566,273
New Program Activity for Current Plan	11,122,022	5,750,000
Total Uses	<u>\$ 13,944,079</u>	<u>\$ 9,316,273</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 14a; Minn. Rules, Parts 4900.0610-0700 and Title II of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. §12701 et seq.; 24 C.F.R. Part 92

Low and Moderate Income Rental Program (LMIR)

Provide New Opportunities for Affordable Housing • Prevent and End Long-Term Homelessness • Preserve Existing Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

The Low and Moderate Income Rental Program (LMIR) makes interest-bearing, amortizing first mortgages available for the refinance, acquisition, rehabilitation or new construction/conversion of rental developments that house low- and moderate-income Minnesotans. This program also includes bridge loans and equity take-out loans. Financing is available both through the RFP and on an open pipeline basis. Deferred loans under Flexible Financing for Capital Costs (FFCC) are available only in conjunction with LMIR loans.

Current tenant income limit: 40 percent of units must be at 60 percent area median income; or 20 percent of units must be at 50 percent area median income; and 25 percent of units may be unrestricted; balance may be up to 100 percent area median income.

Maximum loan amount: no set limit; minimum amount is two million dollars on tax-exempt bond loans and \$350,000 on all others.

Program Performance and Trends

For the period of October 1, 2009 – September 30, 2010, Minnesota Housing financed:

- loans for nine developments
- \$12,440,812 loan amount
- \$1,382,312 average loan or \$25,338 per unit
- median household income was \$19,943 or 28.4 percent of statewide median
- 35.5 percent of households occupying LMIR units were of color

Proposal for 2012

The 2012 program will include \$20 million for conduit financing to preserve federally-assisted housing with a focus on developments with minimal gap financing needs.

Based on resources available for new activity in 2012, Minnesota Housing expects to finance approximately 2,175 units under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Undisbursed Bond Proceeds	\$ -0-	\$ 21,966,785
Carry Forward of Housing Investment Fund	32,038,922	56,016,395
New Bond Issues	30,000,000	40,000,000
New Housing Investment Fund Allocation	42,000,000	28,000,000
Total Sources	<u>\$ 104,038,922</u>	<u>\$ 145,983,180</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 32,038,922	\$ 77,983,180
New Program Activity for Current Plan	72,000,000	68,000,000
Total Uses	<u>\$ 104,038,922</u>	<u>\$ 145,983,180</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 3

Flexible Financing for Capital Costs (FFCC)

Provide New Opportunities for Affordable Housing • Prevent and End Long-Term Homelessness • Preserve Existing Affordable Housing • Mitigate Foreclosure Impact Through Prevention and Remediation

The Flexible Financing for Capital Costs (FFCC) program provides deferred loans at low or no interest to support the production, stabilization, and maintenance of multifamily rental housing. Funds are provided only in conjunction with Low and Moderate Income Rental (LMIR) first mortgage loans and may be used in conjunction with the refinancing of existing loans.

The current FFCC program is administered both through the Consolidated RFP and on a pipeline basis, allowing the Agency to act quickly to meet the immediate needs of a development that, if required to wait for a request for proposal (RFP), would be unnecessarily delayed and subjected to hardship.

Current tenant income limit: 40 percent of units must be at 60 percent area median income; or 20 percent of units must be at 50 percent area median income; and 25 percent of units may be unrestricted; balance may be up to 100 percent area median income

Maximum loan amount: no set limit, subject to funding availability

Program Performance, Trends and Evaluation

Data from the annual assessment report for 2010 show that Minnesota Housing financed \$3,314,811 in FFCC loans for four developments. The average award was \$828,703 per development or \$18,114 per unit. This resource allowed the Agency to further assist 183 units of affordable housing (financed under LMIR) during the year.

FFCC is linked to the LMIR program and is part of the strategy and implementation of the LMIR first mortgage product.

Proposal for 2012

Based on resources available for new activity in 2012 Minnesota Housing expects to assist approximately 200 units under FFCC.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Affordability Fund	\$ 3,744,563	\$ 4,168,115
New Housing Affordability Fund Allocation	8,530,000	4,500,000
Total Sources	<u>\$ 12,274,563</u>	<u>\$ 8,668,115</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 3,744,563	\$ 4,168,115
New Program Activity for Current Plan	8,530,000	4,500,000
Total Uses	<u>\$ 12,274,563</u>	<u>\$ 8,668,115</u>

Legal Authority: Minn. Stat. §462A.05, Subd.3, and - Minn. Stat. §462A.21, Subd.8a.

Low Income Housing Tax Credits

Provide New Opportunities for Affordable Housing • Preserve Existing Affordable Housing • Prevent and End Long-Term Homelessness • Mitigate Foreclosure Impact Through Prevention and Remediation

The Housing Tax Credit (HTC) program provides a federal income tax credit to owners and investors for the construction or acquisition with substantial rehabilitation of eligible rental housing. Housing must meet income and rent restrictions for a minimum of 30 years. Tax credits are awarded in two competitive allocation rounds each year with Round 1 held concurrently with the Minnesota Housing Multifamily Consolidated Request for Proposals. The amount of tax credits allocated to each state is based upon the state population and a per capita amount which increases each year with the cost of living. A portion of the State's allocation is allocated by statute among seven cities and counties that are designated suballocating agencies. Some suballocators have entered into an HTC Joint Powers Agreement with Minnesota Housing under which Minnesota Housing performs certain functions related to the credit allocation and compliance monitoring. As a condition of the Joint Powers Agreement, the participating suballocator will apportion its entire annual tax credit distribution to Minnesota Housing to administer.

In February 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) to stimulate the economy and save or create millions of jobs. ARRA provided Minnesota with the resources necessary to bring "shovel ready" projects to production and close financing gaps in these projects created by reduced credit pricing and lack of syndicator equity.

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010:

- 1,142 HTC units in 22 developments
- \$91,030,074 in syndication proceeds
- average syndication amount per unit was \$76,428
- median income of households in HTC units previously funded by Minnesota Housing was \$17,505 or 24.1 percent of statewide median
- 48.8 percent of total were households of color

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded an additional 900 units in the amount of \$56,736,673 using the ARRA appropriation. Minnesota Housing had committed or disbursed all ARRA funds as of the end of FFY 2010.

Proposal for 2012

Based on the available HTC credit ceiling, Minnesota Housing expects to allocate tax credits for approximately 700 units in 2012.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Investment Fund	\$ -0-	\$ 3,404,109
Carry Forward of Tax Credit Exchange Funds		3,000,000
New Federal Housing Tax Credit Allocation	15,000,000	7,700,000
New Tax Credit Exchange Funds	40,653,927	-0-
New Gap Financing (TCAP)	19,249,159	-0-
New Housing Investment Fund Allocation	16,250,000	-0-
Total Sources	<u>\$ 91,153,086</u>	<u>\$ 14,104,109</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ 6,404,109
New Program Activity for Current Plan	91,153,086	7,700,000
Total Uses	<u>\$ 91,153,086</u>	<u>\$ 14,104,109</u>

Legal Authority: Minn. Stat. §462A.221-225; IRC §42

Affordable Rental Preservation

Preserve Existing Affordable Housing • Prevent and End Long-term Homelessness • Mitigate Foreclosure Impact Through Prevention and Remediation

This program will include activity formerly funded under the Affordable Rental Investment Fund – Preservation (PARIF). It is a statewide program that provides deferred loans to help cover the costs of preserving permanent affordable rental housing with long-term, project-based federal subsidies that are in jeopardy of being lost. Program funds may also be used to preserve existing supportive housing developments. The program provides funds to help with the costs of acquisition, rehabilitation, and debt restructuring, as well as equity take-out. Federal HOME dollars are an added funding source for this preservation activity.

Current tenant income limit: subject to Federal guidelines of assistance being preserved

Maximum assistance amount: None

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- loans for 11 developments
- \$9,337,735 loan amount
- average loan amount was \$848,885 or an average of \$24,066 per unit
- median household income of tenants was \$10,320 or 14.1 percent of statewide median
- 50.4 percent of total assisted were households of color

This program continues to be a critical tool in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based federally assisted housing. It also has been an effective tool in advancing the business plan to end long-term homelessness with the addition of preserving existing supportive housing in 2012 as an eligible activity.

As of April 2011, Minnesota Housing estimates the present value of Federal assistance preserved through deferred funding, approximately 80 percent of which is PARIF, to be nearly \$840 million.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund approximately 1,260 units under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 17,803,760	\$ 7,094,986
Repayments	200,000	500,000
New State Appropriations	17,642,000	7,313,000
Carry Forward of Prior Years Federal HOME Funds		6,091,540
New Federal HOME Funds		6,863,432
Total Sources	<u>\$ 35,645,760</u>	<u>\$ 27,862,958</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 16,692,067	\$ 5,831,787
New Program Activity for Current Plan	<u>18,953,693</u>	<u>22,031,171</u>
Total Uses	<u>\$ 35,645,760</u>	<u>\$ 27,862,958</u>

Legal Authority: Minn. Stat. §462A.21, Subd. 8b and 14a; Minn. Stat. §462A.05, Subd. 3b; Laws of Minnesota 2009, Chap. 17, Art. 1, Sec. 6; Minn. Rules, Parts 4900.3500-3550, 2700-2707, 4900.0610-0700 and Title 11 of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. §12701 et seq; 24 CFR Part 92

Rental Rehabilitation Loan Program

Preserve Existing Affordable Housing

The Rental Rehabilitation Loan (RRL) Program provides property improvement amortizing loans to residential rental property owners through local participating lenders. Loans are interest bearing and fully amortizing for 1-15 year terms. Financing is available statewide.

Current tenant income limit: 80 percent of statewide median income

Maximum loan amount: \$25,000 for 1-2 units; or \$10,000 per unit up to \$100,000

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing financed:

- 15 loans for the rehabilitation of 143 units of rental housing
- \$441,237 loan amount
- average loan size was \$29,416 or \$3,086 per unit
- median household income of tenants was \$22,000 or 30.1 percent of statewide median
- 45.5 percent of total were households of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to finance approximately 270 units under this program.

Sources and Uses

Sources	10-11 Plan	2012 Plan
Carry Forward of Housing Investment Fund	\$ -0-	\$ 82,735
Carry Forward of Federal HOME Appropriation (HOME Rental Rehabilitation Program)	8,322,151	3,387,000
Carry Forward of State Appropriations	3,046,595	-0-
New Housing Investment Fund Allocation	2,500,000	1,000,000
New Federal Appropriations	2,000,000	-0-
New State Appropriations	8,062,000	-0-
Total Sources	<u>\$ 23,930,746</u>	<u>\$ 4,469,735</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 10,322,151	\$ 3,469,735
New Program Activity for Current Plan	13,608,595	1,000,000
Total Uses	<u>\$ 23,930,746</u>	<u>\$ 4,469,735</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 14

Rental Rehabilitation Deferred Loan (RRDL) Pilot Program

Preserve Existing Affordable Housing

A new Rental Rehabilitation Deferred Loan (RRDL) Pilot Program will launch in October 2011. This new pilot program will preserve existing affordable rental housing stock throughout Greater Minnesota and is intended to serve owners of smaller properties not applying through the competitive Request for Proposals process.

The program will provide rental property owners a streamlined, moderate rehabilitation deferred loan program at no interest that will be accessible through a local administrative network. The RRDL Program may serve all areas of the state with the exception of HOME entitlement areas.

Current tenant income limit: 80 percent of statewide median income

Maximum loan amount: \$300,000. Minimum loan amount: \$25,000

Program Performance and Trends

None

Proposal for 2012-2013

Based on resources available for new activity in 2012, Minnesota Housing expects to finance approximately 400 units under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
New Housing Affordable Fund Allocation	\$ -0-	\$ 597,585
Carry Forward of State Appropriations	-0-	7,062,000
New State Appropriations	-0-	2,449,000
Total Sources	<u>\$ -0-</u>	<u>\$ 10,108,585</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ -0-
New Program Activity for Current Plan	-0-	10,108,585
Total Uses	<u>\$ -0-</u>	<u>\$ 10,108,585</u>

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

Section 8 – Performance Based Contract Administration (PBCA)

Preserve Existing Affordable Housing

Effective August 1, 2000 the Agency entered into an agreement with the U.S. Department of Housing and Urban Development (HUD) to administer Section 8 contracts (348 contracts, more than 18,000 units) that are not part of the Agency's first mortgage portfolio. This agreement provides for an efficient, statewide administration of Federal project-based Section 8 rental assistance. The Agency's primary responsibilities are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, and following up on Real Estate Assessment Center (REAC) physical inspections. These activities assist the Agency in identifying and planning for the preservation needs of the HUD or privately-mortgaged Section 8 developments.

The contract with HUD to administer these Section 8 contracts was rebid in 2011 and Minnesota Housing was awarded the new contract, which extends from October 1, 2011 through September 30, 2013.

Program Performance and Trends

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between Traditional Contract Administration (TCA - Minnesota Housing-financed Section 8) and Performance Based Contract Administration (PBCA – other Section 8). An estimated 33 percent of PBCA units are located in the cities of Minneapolis and Saint Paul; an estimated 16 percent of TCA units are located in the center cities.

As of the end of 2010, the median income of the nearly 18,000 households served under PBCA was \$10,470 (14.3 percent of statewide median at that time). Among assisted households reporting, 36.4 percent were households of color.

Proposal for 2012

Housing Assistance Payments will be made under 351 Section 8 contracts covering 18,503 units.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
New Federal PBCA Allocation	\$ 190,000,000	\$ 105,000,000
Total Sources	<u>\$ 190,000,000</u>	<u>\$ 105,000,000</u>
Uses		
New Program Activity for Current Plan	\$ 190,000,000	\$ 105,000,000
Total Uses	<u>\$ 190,000,000</u>	<u>\$ 105,000,000</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

Section 8 – Traditional Contract Administration (TCA)

Preserve Existing Affordable Housing

The Section 8 program was enacted in 1974 to provide decent, safe, and sanitary affordable housing for households with a range of incomes. For all developments, at least 40 percent of new households must have incomes at or below 30 percent of the area median income. In developments built before 1981, all new tenant households must have incomes at or below 80 percent of the median income. In developments built since 1981, all new tenant households must have incomes at or below 50 percent of the area median income. The U.S. Department of Housing & Urban Development (HUD) allows exceptions for developments that are experiencing vacancy problems.

Minnesota Housing provided permanent mortgage financing for these Section 8 developments from 1975 to the mid-1980s.

Program Performance and Trends

As of the end of 2010, these Minnesota Housing-financed rental developments housed nearly 12,000 low income households.

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between Traditional Contract Administration (TCA - Minnesota Housing-financed Section 8) and Performance Based Contract Administration (PBCA – other Section 8). An estimated 33 percent of PBCA units are located in the cities of Minneapolis and Saint Paul; an estimated 16 percent of TCA units are located in the center cities.

Median income of households in TCA developments was \$11,679 (16.0 percent of statewide median) as of the end of 2010. Among these Section 8 tenants, 22.8 percent were households of color.

Proposal for 2012

Minnesota Housing will make Housing Assistance Payments under 215 Section 8 contracts covering 12,418 units in developments financed by Minnesota Housing.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
New Federal Section 8 Allocation	<u>\$ 150,000,000</u>	<u>\$ 75,000,000</u>
Total Sources	<u>\$ 150,000,000</u>	<u>\$ 75,000,000</u>
Uses		
New Program Activity for Current Plan	<u>\$ 150,000,000</u>	<u>\$ 75,000,000</u>
Total Uses	<u>\$ 150,000,000</u>	<u>\$ 75,000,000</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

Section 236 Program

Preserve Existing Affordable Housing

The Section 236 program, which was used to fund low-income housing in the late 1960s and early 1970s, was predominately a program between the Federal government, private lenders, and private for-profit and nonprofit developers. Under the Section 236 program, the Federal government subsidized the interest rate on the mortgage from the then current market rate to a rate of one percent in order to reduce rents and make housing more affordable. The Section 236 program was a predecessor to the Section 8 program.

Program Performance and Trends

This program provides 548 units of affordable housing in eight developments to residents with incomes at or below 80 percent of median income adjusted for family size. In 2010, the Agency disbursed \$1,616,246 in interest reduction payments for Section 236 housing. We do not report separately on the demographics of tenants of Section 236 housing.

Proposal for 2012

This funding will assist eight developments including 548 housing units.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
New Federal Section 236 Allocation	\$ 3,250,000	\$ 1,625,000
Total Sources	<u>\$ 3,250,000</u>	<u>\$ 1,625,000</u>
Uses		
New Program Activity for Current Plan	\$ 3,250,000	\$ 1,625,000
Total Uses	<u>\$ 3,250,000</u>	<u>\$ 1,625,000</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 12 U.S.C. §1715z-1 (Housing and Urban Development Act of 1968)

Housing Trust Fund (HTF)

Prevent and End Long-Term Homelessness • Preserve Existing Affordable Housing

The Housing Trust Fund (HTF) can be used for three types of activities:

- Capital financing for acquisition, construction, rehabilitation of affordable and/ or permanent supportive housing.
- Operating subsidies for unique costs associated with operating a low-income or supportive housing development or for revenue shortfall to help reduce the difference between the costs of operating a low-income housing development and the rents that the tenants can afford to pay.
- Rental assistance in the form of a tenant-based, sponsor-based, or project-based contract. Rental Assistance is intended to be temporary in nature and provide assistance to individual households.

Funds can be provided as grants or deferred with no or low interest. Funding priority is given to housing proposals that serve tenants with incomes at 30 percent of the median family income for the Minneapolis/Saint Paul metropolitan area. Priority also is given to proposals serving households experiencing long-term homelessness.

Current tenant income limit: 60 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median with priority for proposals affordable at 30 percent

Maximum loan amount: none beyond funding availability

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded capital or operating expenses for:

- Loans for 11 developments
- \$17,552,234 loan amount
- average per loan was \$866,612 or a per unit average of \$31,913
- median household income of tenants was \$8,328 or 11.4 percent of statewide median
- 46.1 percent of total were households of color

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded HTF rental assistance for:

- 2,106 households
- \$10,618,666 assistance amount
- average monthly assistance amount of \$562 per household per month
- median household income was \$7,276 or 10 percent of statewide median
- 65.3 percent of total were households of color

In 2010, 62 percent of HTF funds were spent for capital and operating expenses and 38 percent for rental assistance vouchers.

Proposal for 2012

It is expected that 100 percent of HTF funds in the 2012 AHP will be used to renew funding for existing rental and operating subsidy grants. Based on resources available for new activity in 2012, Minnesota Housing expects to fund approximately 1,900 households or units under this program.

The State Legislature made no provisions for affordable housing to be developed through the capital bonding process in 2012.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 21,227,450	\$ 11,283,894
Pohlad Foundation Contribution	2,400,000	-0-
Real Estate Brokerage Account Earnings	375,000	50,000
501 (c) (3) Bonds	30,000,000	17,000,000
New State Appropriations	21,610,000	9,555,000
Total Sources	<u>\$ 75,612,450</u>	<u>\$ 37,888,894</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 18,357,857	\$ 27,816,903
New Program Activity for Current Plan	57,254,593	10,071,991
Total Uses	<u>\$ 75,612,450</u>	<u>\$ 37,888,894</u>

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Ending Long-Term Homelessness Initiative Fund (ELHIF)

Preserve Existing Affordable Housing • Prevent and End Long-Term Homelessness

The Ending Long-Term Homelessness Initiative Fund (ELHIF) is used for permanent supportive housing for persons experiencing long-term homelessness, and operates under the Housing Trust Fund (HTF) statute and program rules. Please refer to the HTF program for a more complete description.

In addition to the uses described under HTF, funds have been used for non-bondable development costs in general obligation bond-funded (GO) supportive housing projects and Homeless Management Information System (HMIS) to collect data for efforts under this initiative.

Program Performance and Trends

The Business Plan to End Long-Term Homelessness has a goal of funding 4,000 housing opportunities by the end of 2015 for persons experiencing long-term homelessness. As of June 29, 2011, 3,582 new opportunities have been created with a variety of resources, including ELHIF.

Minnesota Housing has budgeted \$96 million of state appropriations and Agency resources to meeting this goal and committed \$87 million as of June 2011. In addition to committing funds for capital, Minnesota Housing also uses ELHIF as a funding resource for operating subsidies and rental assistance vouchers.

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded these capital and operating expenses:

- loans for 17 developments
- \$8,472,964 loan amount
- average loan amount was \$498,410 or an average of \$10,947 per unit
- median household income of tenants was \$10,020 or 13.7 percent of statewide median
- 80.3 percent of total were households of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to assist approximately 300 households or units under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Affordability Fund	\$ 17,194,807	\$ 10,912,475
New Housing Affordability Fund Allocation	7,500,000	1,598,600
Total Sources	<u>\$ 24,694,807</u>	<u>\$ 12,511,075</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 17,194,807	\$ 10,912,475
New Program Activity for Current Plan	7,500,000	1,598,600
Total Uses	<u>\$ 24,694,807</u>	<u>\$ 12,511,075</u>

Legal Authority: This fund will be operated under the Housing Trust Fund Rules. Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Bridges

Preserve Existing Affordable Housing

Bridges is a statewide program, operated in selected counties, which provides grants for temporary rental assistance payments and security deposits paid directly to landlords. Assistance is provided on behalf of participants with serious mental illness who are on a waiting list for a permanent rent subsidy, typically a Section 8 Housing Choice Voucher. The program is administered by local housing organizations in communities in which eligible applicants live. Referral to the program must be made by a mental health professional.

The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of the program. The Department of Human Services operates a similar program that provides housing assistance to people with serious mental illness in crisis situations.

Current tenant income limit: 50 percent of area median income

Maximum assistance amount: none beyond funding availability

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- 664 households
- \$2,680,913 assistance amount
- average monthly assistance amount was \$448 per household per month
- median household income of participants was \$9,300 or 12.7 percent of statewide median
- 27.5 percent of total were households of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to assist approximately 500 households under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 335,178	\$ 84,285
New State Appropriations	<u>5,276,000</u>	<u>2,638,000</u>
Total Sources	<u><u>\$ 5,611,178</u></u>	<u><u>\$ 2,722,285</u></u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 226,237	\$ 15,889
New Program Activity for Current Plan	<u>5,384,941</u>	<u>2,706,396</u>
Total Uses	<u><u>\$ 5,611,178</u></u>	<u><u>\$ 2,722,285</u></u>

Legal Authority: Minn. Stat. §462A.2097; Minn. Rules, Parts 4900.3000-3050

Family Homeless Prevention and Assistance Program (FHPAP)

Preserve Existing Affordable Housing • Prevent and End Long-Term Homelessness

The Family Homeless Prevention and Assistance Program (FHPAP) provides grants to encourage and support innovations at the county, region, or local level in establishing a comprehensive homelessness response system or in redesigning an existing one. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters or length of homelessness, and assisting individuals and families experiencing homelessness to secure transitional or permanent affordable housing.

Grant funds are awarded through a competitive application process for the State biennium. In the Minneapolis/Saint Paul metropolitan seven-county area, a county is the only eligible applicant. In Greater Minnesota, eligible applicants include a county, a group of contiguous counties jointly acting together, or a community-based nonprofit organization with a sponsoring resolution from each of the county boards of the counties located within its operating jurisdiction.

Current household income limit: lacking sufficient resources to maintain or obtain housing; eligibility criteria set locally

Maximum assistance amount: none beyond funding availability

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- 9,653 households
- \$6,251,827 funding amount
- average assistance was \$648 per household
- median household income was \$9,420 or 12.9 percent of statewide median
- 51.2 percent of total were households of color

FHPAP grantees have implemented a variety of homeless prevention and stabilization activities including rent or mortgage assistance, utility assistance, and an array of support services to assist people to stay in their homes or secure housing. As of the end of 2010, 42.1 percent of funds distributed to providers for the biennium had been used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 48.9 percent of funds were used for support services; and 9 percent of funds were used for program administration.

FHPAP is an important resource in the effort to end homelessness. The program assists extremely low-income people at a low assistance per household cost, primarily with short-term tenant-based assistance (limited to 24 months, most typically less than three months). Data collected through the Homeless Management Information System (HMIS) indicate that less than five percent of assisted household returned to shelter within six months of exiting this program.

Proposal for 2012

Based on resources available for new activity in 2012, previous levels of activity, and an increase in maximum assistance available per household, this program is expected to assist approximately 10,260 households during the year.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 55,290	\$ 50,095
New State Appropriations	<u>14,930,000</u>	<u>7,465,000</u>
Total Sources	<u><u>\$ 14,985,290</u></u>	<u><u>\$ 7,515,095</u></u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 55,000	\$ 26,599
New Program Activity for Current Plan	<u>14,930,290</u>	<u>7,488,496</u>
Total Uses	<u><u>\$ 14,985,290</u></u>	<u><u>\$ 7,515,095</u></u>

Legal Authority: Minn. Stat. §462A.204

Housing Opportunities for Persons with AIDS (HOPWA)

Preserve Existing Affordable Housing • Prevent and End Long-Term Homelessness

The Housing Opportunities for Persons with AIDS (HOPWA) program provides grants that can be used to meet the housing needs of persons with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status or related diseases, and their families. The program authorizes grants for both housing assistance and services. HOPWA funds are appropriated by Congress to the U.S. Department of Housing and Urban Development. The City of Minneapolis receives and administers a direct grant for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. Minnesota Housing receives a direct award of funds for the portion of the State not covered by the City of Minneapolis grant and contracts with the Minnesota AIDS Project Greater Minnesota Emergency Program to administer these funds in the given geographical area.

Current tenant income limit: 80 percent of area median income adjusted for family size.
Maximum assistance amount: none beyond funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing funded:

- 155 households
- \$112,376 assistance amount
- median household income was \$13,648 or 18.5 percent of statewide median
- average rental assistance per household per month was \$725
- 40 percent of total were households of color

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to assist approximately 160 households under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal Appropriations	\$ 154,515	\$ 207,754
New Federal Appropriations	249,050	139,821
Total Sources	<u>\$ 403,565</u>	<u>\$ 347,575</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 154,515	\$ 207,754
New Program Activity for Current Plan	249,050	139,821
Total Uses	<u>\$ 403,565</u>	<u>\$ 347,575</u>

Legal Authority: Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12901-12921; 24 C.F.R. Part 574

Asset Management

Preserve Existing Affordable Housing

The Asset Management account is used to make interest and non-interest bearing amortizing and deferred loans as well as rent subsidy grants and is an important resource for preserving the stock of affordable rental housing. Minnesota Housing-financed first mortgage developments may be eligible for funding from this account if reserves are inadequate to fund capital improvements. Loans from this provide funding necessary for repairs and maintenance to protect the Agency's assets and ensure the development is decent, safe and sanitary. A property needs analysis tool is used to project physical needs and operating deficiencies.

Minnesota Housing can also use these funds to pay for costs incurred when a property goes into default and eventually becomes Real Estate Owned (REO) by the Agency. Costs of legal representation for the Agency, taxes and insurance, other operating costs, capital improvements necessary to market the property, and loan losses are paid with resources allocated to this program. The funds are also used to stabilize troubled developments that, had they become REO, would have cost the Agency more in losses than the total cost of stabilizing them.

Program Performance and Trends

For the period of October 1, 2009 – September 30, 2010, the Agency provided four loans to developments in the amount of \$2,794,456. Loans averaged \$698,614 or \$27,356 per unit. Developments receiving asset management funds are generally required to extend any applicable Section 8 contracts for 10 additional years. The present value of extending the Section 8 contracts during the above timeframe was \$8 million.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund 235 units under this program. The property needs analysis tool identified at least 16 properties that will need asset management loans in the next two years.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Affordability Fund	\$ 3,400,733	\$ 216,398
Carry Forward of Rental Housing 2004C Bond Proceeds	-0-	253,577
Rental Housing 2004C Bond Proceeds	8,000,000	-0-
New Federal Appropriation	7,700,000	-0-
New Housing Affordability Fund Allocation	7,300,000	3,500,000
Total Sources	<u>\$ 26,400,733</u>	<u>\$ 3,969,975</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 3,400,733	\$ 469,975
New Program Activity for Current Plan	23,000,000	3,500,000
Total Uses	<u>\$ 26,400,733</u>	<u>\$ 3,969,975</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 3

Financing Adjustment Factor (FAF) / Financing Adjustment (FA)

Preserve Existing Affordable Housing

Financing Adjustment Factor (FAF) and Financing Adjustment (FA) savings come to the Agency as a result of an agreement between the U.S. Department of Housing and Urban Development (HUD) and Minnesota Housing to share in the savings resulting from refunding high interest rate bonds originally issued in 1980 and 1982 to finance Section 8 developments. These funds are used to pay for deferred maintenance and operating subsidies of previously funded Minnesota Housing multifamily projects to enable the projects to continue to serve low-and extremely low-income families. This account is used to make interest-and non-interest-bearing, amortizing and deferred loans or grants as well as rent subsidy grants. A property needs analysis tool is used to project physical needs and operating deficiencies.

Program Performance and Trends

From October 1, 2009 – September 30, 2010, Minnesota Housing closed three FAF/FA loans in the amount of \$1,726,231 for an average loan amount of \$575,410. The present value of extending the Section 8 contract for 10 years was \$5 million.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to finance approximately 60 units under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal FAF/FA Account	\$ 1,831,943	\$ 3,609,933
New FAF/FA Account Allocation	8,500,000	875,015
Total Sources	<u>\$ 10,331,943</u>	<u>\$ 4,484,108</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 1,831,943	\$ 3,609,093
New Program Activity for Current Plan	8,500,000	875,015
Total Uses	<u>\$ 10,331,943</u>	<u>\$ 4,484,108</u>

Legal Authority: Minn. Stat. §462A.05, Subd. 11

Economic Development and Housing/Challenge Program

Provide New Opportunities for Affordable Housing • Preserve Existing Affordable Housing • Prevent and End Long-Term Homelessness • Mitigate Foreclosure Impact Through Prevention and Remediation

The Economic Development and Housing/Challenge Program (Challenge Fund) provides grants or loans for the purposes of construction, acquisition, rehabilitation, construction or permanent financing, interest rate reduction, refinancing and gap financing. Funds are used to support economic development or job creation activities within a community or region by meeting locally identified housing needs for both renter and owner-occupied housing. As of 2010, funds also may be used for the conversion of manufactured home parks to cooperative ownership, e.g., resident-owned.

The program is designed to provide housing affordable to the local workforce based upon the wages of the jobs being created or retained in the area, fastest growing jobs in the local area, and jobs with the most openings in the local area, or wages of the workforce employed by organizations making contributions under the program.

These deferred loans are typically provided at no or low interest for a term of 30 years. Minnesota Housing requires that most affordability gap financing awards be provided in the form of loans repayable to the Agency.

Challenge Fund loans may be made to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations or owners of housing, including individuals, for both multifamily and single family projects.

The Challenge Fund requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources. Preference is also given to proposals with contributions from local units of government or private philanthropic organizations.

Current income limit: 115 percent of the greater of area or State median income for owner-occupied housing and 80 percent of the greater of area or State median income for rental housing.

Maximum loan amount: None beyond funding availability

Program Performance and Trends

Program Assessment data for the owner-occupied housing funds under Economic Development and Housing/Challenge Program is included in data provided for the Community Revitalization Fund (CRV), which is the umbrella program under which Minnesota Housing currently delivers the Challenge Fund, and two interim construction financing programs for homeownership activities. Information on the Challenge Fund is not available separately given current database constraints; however, the Community Revitalization Fund as a whole has proven to be a valuable resource for increasing the housing supply for low and moderate-income households.

For the program assessment period October 1, 2009 – September 30, 2010, the Agency provided funding for owner-occupied housing 23.9 percent of which was new construction:

- 301 loans
- \$46,357,235 loan amount
- average loan amount of \$21,120
- median household income of borrowers was \$33,088 or 45.3 percent of statewide median
- 41 percent of total were households of color

For the program assessment period October 1, 2009 – September 30, 2010, the Agency provided funding for affordable rental housing:

- 10 rental housing developments
- \$7,391,815 loan amount
- average loan was \$739,182 or \$15,272 per unit
- median household income of tenants was \$19,500 or 26.7 percent of statewide median income
- 60.5 percent of total were households of color.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund approximately 625 units under this program (465 in Single Family and 170 in Multifamily).

Funding includes \$6 million for manufactured park conversions, \$10.4 million for Community Recovery Financing (alternative financing for buying foreclosed homes), and \$3 million for MyHomeSource.

For 2012, the Challenge Fund includes a set-aside for the first 11 months of the appropriations for both Tribal and Urban Indian Housing.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Investment Fund	\$ 10,000,000	\$ 23,000,000
Carry Forward of State Appropriations	31,039,726	29,149,463
Repayments of State Appropriations	500,000	250,000
New Housing Affordability Fund	7,700,000	-0-
New Housing Investment Fund	38,000,000	19,400,000
New State Appropriations	14,786,000	6,955,000
Total Sources	<u>\$102,025,726</u>	<u>\$ 78,754,463</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 39,327,699	\$ 50,921,969
New Program Activity for Current Plan	62,698,027	27,832,494
Total Uses	<u>\$102,025,726</u>	<u>\$ 78,754,463</u>

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

Technical Assistance and Operating Support

The Agency Technical Assistance and Operating Support Fund provides organizational support funding to entities providing affordable housing and housing-related services. The Agency contracts with intermediary organizations to deliver a large portion of the program funds to eligible organizational recipients. It also provides grants for projects that have an important State or regional impact and are consistent with the Minnesota Housing's mission. Grants may be used for projects that are research-oriented, that require external expertise to supplement existing staff, or that develop or support infrastructure related to the Agency's strategic priorities.

Program Performance and Trends

Examples of expenditures include contributions to the statewide counseling network through the Home Ownership Center, the Wilder Statewide Survey of Homelessness, the maintenance of and expansion of the database and processing system by HousingLink to provide affordable rental housing vacancy information statewide, the State's Homeless Management Information System (HMIS), regional Continuum of Care planning, the evaluation of updated national Green Communities criteria, and assistance with the refinement and implementation of new initiatives.

Proposal for 2012

Under the 2012 Plan, funds will be made available for a variety of operating support and technical assistance needs including continued support for the Minnesota Home Ownership Center, HMIS, the Regional Housing Advisory Groups, Continuum of Care regions, and HousingLink. Twin Cities LISC, Duluth LISC and the Minnesota Housing Partnership will provide operating support to other housing providers. In addition, this Affordable Housing Plan includes a newly developed CHDO Operating Support Program. Approximately 69 percent of the fund will be allocated for operating support and the balance will support research and other technical assistance needs.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Housing Affordability Fund	\$ 767,850	\$ 101,895
Carry Forward of Federal HOME Funds	-0-	462,189
Carry Forward of State Appropriated Funds	-0-	144,666
New Housing Affordability Fund Allocation	3,000,000	2,217,000
New Federal HOME Funds	-0-	462,189
New State Appropriated Funds	-0-	125,000
Total Sources	<u>\$ 3,767,850</u>	<u>\$ 3,512,939</u>
Uses		
Program Disbursement for Prior Plan Commitments	\$ 909,350	\$ 206,895
New Program Activity for Current Plan	<u>3,732,573</u>	<u>3,306,044</u>
Total Uses	<u>\$ 4,641,923</u>	<u>\$ 3,512,939</u>

Legal Authority: Minn. Stat. §462A.07, Subd. 6; Minn. Stat. §462A.21, Subd. 3b; Minn. Rules, Parts 4900.1931-1937; 42 U.S.C. §12701 et seq.; 24 C.F.R. Part 92;

Non-Profit Capacity Building Loan Program

Provide New Opportunities for Affordable Housing • Preserve Existing Affordable Housing • Prevent and End Long-term Homelessness

The Nonprofit Capacity Building Loan Program assists nonprofit organizations and local units of government in the development of housing projects for low-and moderate-income persons. The 0 to 3 percent interest-deferred loan funds are to be used for pre-development costs such as architect fees, attorney fees, options on land and buildings, and other costs associated with the processing or preparations of a housing project proposal. The program is a revolving loan fund delivered through administrators. Greater Metropolitan Housing Corporation and the Local Initiatives Support Corporation (Minneapolis/Saint Paul metropolitan) serve the seven-county Twin Cities area while the Minnesota Housing Partnership and the Local Initiatives Support Corporation (Duluth) serve the balance of the State.

Individual loans are selected and underwritten by the administrators with results reported to Minnesota Housing on a quarterly basis. These short-term loans are often used in conjunction with Minnesota Housing deferred assistance or permanent mortgage financing.

Current tenant income limit: 80 percent of statewide median income. Maximum loan amount: varies by administrator.

Program Performance and Trends

Minnesota Housing typically provides financing averaging approximately \$125,000 per loan. This program, which achieves nearly a 1:1 match from our administrators, was established as a revolving loan program with repayments supporting new loan production.

The program supports the Agency's interest in the development or expansion of the capacity of nonprofit housing providers. Per the Memorandum of Understanding (MOU) in place, all interest earnings from the funds that have been allocated to the administrators are used for new loan production.

Proposal for 2012

Based on resources available for new activity in 2012, Minnesota Housing expects to fund approximately 1,000 units under this program.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Revolving Housing Affordability Fund Allocation	\$ 4,320,000	\$ 5,320,000
Total Sources	<u>\$ 4,320,000</u>	<u>\$ 5,320,000</u>
Uses		
New Program Activity for Current Plan	\$ 4,320,000	\$ 5,320,000
Total Uses	<u>\$ 4,320,000</u>	<u>\$ 5,320,000</u>

Legal Authority: Minn. Stat. §462A.21, Subd. 3a; Minn. Rules, Parts 4900.1925-1930

Administrative Expenses (HOME)

Build our Organizational Capacity to Excel and Achieve our Vision

The HOME program regulations allow Minnesota Housing to recover the costs incurred in administering the program, subject to certain Federal restrictions regarding what constitutes allowable costs and subject to the restriction that reimbursed administrative costs cannot exceed 10 percent of the Federal appropriation. Agency administrative expenses are limited to Agency overhead and administrative fees paid to local administrators.

Program Performance and Trends

The Agency allocated 10 percent (\$924,000) of its HOME allocation in Federal Fiscal Year 2011 to overhead. With more precise cost coding over the past several years and the successful negotiation and implementation of an indirect cost rate in fiscal year 2002, Minnesota Housing has increased the amount of expenses that are recovered under the HOME program from less than \$300,000 in 1996 to an estimated \$1,100,000 in 2011. The Agency's allocation of HOME funds to additional activities in recent years (e.g., bringing monitoring of HOME rental developments in-house) have contributed to increased administrative costs.

Proposal for 2012

New allocations of HOME funds will not occur until the annual appropriations are decided which will most likely be in the spring of 2012. This Affordable Housing Plan assumes that the new appropriations are the same as the total 2011 appropriation of \$9.2 million; this is subject to change pending receipt of the actual funds. Administrative costs are budgeted at 10 percent for this Affordable Housing Plan.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal HOME Appropriations	\$ 1,798,902	\$ 781,928
New Federal HOME Appropriations	<u>2,214,957</u>	<u>924,378</u>
Total Sources	<u>\$ 4,013,859</u>	<u>\$ 1,706,306</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 476,890	\$ 300,000
New Program Activity for Current Plan	<u>3,536,969</u>	<u>1,406,306</u>
Total Uses	<u>\$ 4,013,859</u>	<u>\$ 1,706,306</u>

Legal Authority: Title II of the Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12701, et. seq.

Manufactured Home Relocation Trust Fund

Preserve Existing Affordable Housing

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay \$12 per licensed lot into the Trust Fund each year. The owner of the manufactured housing park is authorized to recoup the \$12 from the manufactured homeowner either monthly or in a lump sum. The Trust Fund is available to manufactured home owners who have to relocate because the park they are living in is being closed. The statute sets out the process for determining how much money a homeowner is eligible for and maximum amounts. Only those home owners who paid into the Trust Fund are eligible to receive payment. Funds are paid to Minnesota Management and Budget (formerly Department of Finance) for deposit in the Trust Fund held by Minnesota Housing. Minnesota Housing's role is to make payments as directed by a neutral third party for the costs of relocation.

Program Performance and Trends

No claims were filed or funds disbursed to satisfy existing claims during 2010. As of June 30, 2011 the relocation fund was \$940,459.

Proposal for 2012

It is difficult to predict the level of demand for these funds given the limited experience to date. Minnesota Housing is not responsible for paying claims if there are insufficient funds in the Trust Fund.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriated Receipts	\$ 276,479	\$ 938,761
Receipts Received	<u>200,000</u>	<u>300,000</u>
Total Sources	<u>\$ 476,479</u>	<u>\$ 1,238,761</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ -0-
New Program Activity for Current Plan	<u>476,479</u>	<u>1,238,761</u>
Total Uses	<u>\$ 476,479</u>	<u>\$ 1,238,761</u>

Legal Authority: Minn. Stat. §327C.095

Flood Economic Development and Housing/Challenge Program

Preserve Existing Affordable Housing

Minnesota Housing implemented the Flood Economic Development and Housing/Challenge Program to address flood damage in southeastern Minnesota that occurred in August of 2007. Subsequent Minnesota Legislature appropriations have been \$2.7 million to address the 2009 Red River Valley flood and \$4 million for the 2010 southern Minnesota flood.

The goal of this program is to provide funding for repair/replacement of real property damaged by federally declared disasters in Minnesota. These legislative appropriations are administered through the Quick Start Disaster Recovery Program.

Since 2007, Minnesota has experienced a natural disaster approximately every 15 to 18 months.

Program Performance and Trends

For the program assessment period October 1, 2009 – September 30, 2010, the Agency provided funding for:

- 17 loans
- \$294,321 in loans
- average loan amount was \$17,313
- median household income was \$13,686 or 18.7 percent of statewide
- 11.8 percent of total were households of color

Proposal for 2012

Total resources for new activity are not known until the event of a federally declared disaster.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 378,084	\$ 1,028,718
New State Appropriations	2,700,000	-0-
Total Sources	<u>\$ 3,078,084</u>	<u>\$ 1,028,718</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 378,084	\$ 735,897
New Program Activity for Current Plan	2,700,000	292,821
Total Uses	<u>\$ 3,078,084</u>	<u>\$ 1,028,718</u>

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

Disaster Relief Contingency Fund

Preserve Existing Affordable Housing

This fund was established by the 2001 Minnesota Legislature as the account into which the Agency would deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are to be used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas that are covered by a presidential declaration of disaster. The terms and conditions under which the funds are made available are at the Agency's sole discretion.

Program Performance and Trends

The Contingency Fund was used to finance the Flood Insurance Recovery Program in 2008, which provided up to two years of flood insurance coverage for victims of the 2007 Southeastern Minnesota flood disaster. In 2011, the fund provided \$1 million through the Quick Start Disaster Recovery Program to aid victims of the North Minneapolis tornado with home repair.

Proposal for 2012

Resources available for new activity in 2012 are. New program terms will determine the number of households to be assisted with contingency fund resources.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 475,664	\$ 1,617,461
Repayments	99,748	-0-
Total Sources	<u>\$ 575,412</u>	<u>\$ 1,617,461</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 99,748	\$ 1,494,586
New Program Activity for Current Plan	475,664	122,875
Total Uses	<u>\$ 575,412</u>	<u>\$ 1,617,461</u>

Legal Authority: Minn. Stat. §462A.21, Subd. 29; Laws of Minnesota 2003, Chap. 128, Art. 10, Sec. 4, Subd. 2

Neighborhood Stabilization Program (NSP)

Mitigate Foreclosure Impact Through Prevention and Remediation

The Neighborhood Stabilization Program (NSP) funds targeted emergency assistance to states and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. Minnesota Housing received funds under the first and third allocation rounds: \$38.8 million in 2009 (NSP1) and \$5 million in 2011 (NSP3).

Program Performance and Trends

There is no performance history for this federally funded program. Minnesota Housing allocated its NSP1 funding award in 2009 among nine agencies in the Twin Cities area and 12 in Greater Minnesota. All funds received under NSP1 have been committed to local projects. Minnesota Housing allocated funds received under NSP3 to five agencies in the Twin Cities area and one in Greater Minnesota.

Proposal for 2012

This program is in run-off.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal Appropriations	\$ 36,177,272	\$ 12,413,934
Total Sources	<u>\$ 36,177,272</u>	<u>\$ 12,413,934</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 36,177,272	\$ 12,413,934
Total Uses	<u>\$ 36,177,272</u>	<u>\$ 12,413,934</u>

Legal Authority: Title III of Division B, section 2301 of the Housing and Economic Recovery Act of 2008 (HERA)

Federal Special Projects

Provide New Opportunities for Affordable Housing • Prevent and End Long-Term Homelessness • Preserve Existing Affordable Housing

Under the Federal Economic Development Initiative (EDI), Minnesota received a Special Project Grant to provide assistance for supportive housing development. The congressional appropriation requires that the funds be used for supportive housing for homeless youth.

Program Performance and Trends

The Agency received a \$198,000 Neighborhood Initiatives Grant for Homeless Youth in FFY 2006 that has been disbursed or fully committed.

Proposal for 2012

This program is in run-off.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal Appropriations	\$ 198,000	\$ 112,691
EDI Grant to Minnesota Housing	-0-	-0-
Total Sources	<u>\$ 198,000</u>	<u>\$ 112,691</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ 112,691
New Program Activity for Current Plan	198,000	-0-
Total Uses	<u>\$ 198,000</u>	<u>\$ 112,691</u>

Legal Authority: Minn. Stats. §462A.05, Subds. 6, 11, and 12; and 462A.07, Subd. 13

Tribal Indian Housing Program

Provide New Opportunities for Affordable Housing • Preserve Existing Affordable Housing

The Tribal Indian Housing Program provides funds to support homeownership and rental opportunities to American Indian families throughout the State. Funds have been provided pursuant to housing plans to address the unique housing needs. Program terms and conditions are proposed by each tribe subject to review and approval by the Agency.

To facilitate the most effective use of resources the Minnesota Legislature redirected Tribal and Urban Indian Housing funds to the Economic Development and Housing/Challenge Fund. Tribal and urban Indian organizations will apply for funds on a competitive basis under the Challenge program in 2012.

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, the Tribal Indian Housing Program (included under the Economic Development and Housing/Challenge Program activity shown in the 2010 annual report) provided:

- 28 loans
- \$2,307,600 loan amount (including Minnesota Housing disbursements and revolving funds)
- average loan per household was \$82,414
- median household income was \$40,767 or 55.8 percent of statewide median
- 100 percent were households of color

Proposal for 2012

This program is in run-off.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 2,565,806	\$ 888,256
New State Appropriations	-0-	-0-
Total Sources	<u>\$ 2,565,806</u>	<u>\$ 888,256</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 2,565,806	\$ 888,256
New Program Activity for Current Plan	-0-	-0-
Total Uses	<u>\$ 2,565,806</u>	<u>\$ 888,256</u>

Legal Authority: Minn. Stat. §462A.07, Subd. 14; Minn. Rules, Parts 4900.0900-1080

Publicly Owned Housing Program (POHP)

Preserve Existing Affordable Housing

The Publicly Owned Housing Program (POHP) provides zero percent interest loans to eligible public entities to acquire, construct, or rehabilitate permanent supportive rental or transitional housing. Funds are from proceeds of State general obligation bonds and may be used only for eligible capital costs such as land, buildings, and related soft costs. Operational expenses are not eligible uses. Public ownership is required. A public entity may own and operate the rental housing or may contract with a nonprofit organization or another city to manage the development. Loans may be forgiven after 20 years.

Current tenant income limit: 50 percent of the greater of area or statewide median income

Maximum loan amount: none beyond funding availability

Program Performance and Trends

For the Program Assessment period of October 1, 2009 – September 30, 2010, Minnesota Housing financed:

- loans for two developments
- \$44,066,068 loan amount
- an average of \$78,194 per unit
- median household income of tenants was \$8,724 or 11.9 percent of area median
- 33.7 percent of total were households of color

Proposal for 2012

The State Legislature made no provisions for affordable housing to be developed through the capital bonding process in 2012.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of State Appropriations	\$ 16,670,719	\$ 9,764,382
New State Appropriations	2,000,000	-0-
Total Sources	<u>\$ 18,670,719</u>	<u>\$ 9,764,382</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ 16,670,719	\$ 9,764,382
New Program Activity for Current Plan	2,000,000	-0-
Total Uses	<u>\$ 18,670,719</u>	<u>\$ 9,764,382</u>

Legal Authority: Minn. Stat. §462A.202; Minn. Rules, Parts 4900.3100-3130

HUD's Sustainable Communities Regional Planning Grant

Provide New Opportunities for Affordable Housing • Preserve Existing Affordable Housing

The Sustainable Communities Regional Planning Grant Program supports regional planning efforts that integrate housing, land use, economic and workforce development, transportation, and infrastructure investments in a manner that empowers jurisdictions to consider the interdependent challenges of economic competitiveness and revitalization; social equity, inclusion, and access to opportunity; energy use and climate change; and, public health and environmental impacts. Minnesota Housing received from the Metropolitan Council three subgrants totaling \$220,000 for the following projects:

- Improving energy efficiency in multi-family rental housing
- Furthering Fair Housing
- Enhancing HousingLink services

Proposal for 2012

This program is in run-off.

Sources and Uses

	10-11 Plan	2012 Plan
Sources		
Carry Forward of Federal Appropriations	\$ -0-	\$ 220,000
New Federal Appropriations	-0-	\$ -0-
Total Sources	<u>\$ -0-</u>	<u>\$ 220,000</u>
Uses		
Program Disbursements for Prior Plan Commitments	\$ -0-	\$ 220,000
New Program Activity for Current Plan	-0-	\$ -0-
Total Uses	<u>\$ -0-</u>	<u>\$ 220,000</u>



Environmental Scan: Demographic, Economic and Market Factors Impacting Minnesota Housing

June 2011



A key step in any planning process is understanding how the environment in which an organization operates affects its ability to achieve its mission.

This environmental scan examines how external factors are affecting (and will affect) Minnesota Housing.

The factors include demographic, economic, and market conditions and trends.

Items for Discussion

- 1. Continuing Instability and Uncertainty**
 - a. Great Recession and Slow Recovery
 - b. Foreclosure Crisis and Declining Property Values
- 2. Great and Growing Need versus Limited and Declining Resources**
 - a. Increasing Cost Burden and Need for Additional Affordable Housing
 - b. Declining Resources to Finance Affordable Housing



Currently, there are two overriding issues confronting Minnesota Housing and its ability to achieve its mission.

First, we are currently in a period of continuing instability and uncertainty.

- The economic recovery from the “Great Recession” has been slow with high unemployment.
- The foreclosure crisis continues, which has resulted in neighborhood and housing-market instability and declining property values. After momentarily stabilizing with the homebuyer tax credits, property values are dropping again with the expiration of the credits.

Second, the agency is facing a growing demand for its services while its ability to generate funds to finance affordable housing has been significantly constrained. Specifically,

- On the need side:
 - The percentage of lower-income households who are cost-burdened by their housing payments is increasing. More affordable housing is needed.
 - Homelessness is increasing.
- On the resource side:
 - Because of issues in the tax exempt bond market, the ability of the agency to borrow money at sufficiently low interest rates to make sense for borrowers is limited.
 - The amount of cash that can be generated by Low-Income Housing Tax Credits has declined – though it started to recover in mid-2010.
 - The state is facing a very large budget deficit, and Minnesota Housing will face reductions in its state appropriations.

Items for Discussion (Continued)

3. Other Key Trends

- a. Aging and Retirement of the Baby Boomers
- b. Generation Y Becoming First-Time Homebuyers
- c. Increasingly Diverse Population
- d. Rental Market Tightening
- e. Preserving Affordable Housing
- f. Housing plus Transportation Costs

4. Minnesota is Not Monolithic



There are other key demographic, economic, and market trends to that will be assessed in this environmental scan:

- Baby boomers are aging and starting to retire. As the state's largest age cohort, their housing needs will continue dominate the housing market.
- Member of Generation Y (Baby Boom Echo) are becoming first-time homebuyers. Even though this age cohort has more people than generation X (the current first-time homebuyer age group), many people expect a decline in homeownership demand due to the characteristics and behavior of generation Y and because of market forces triggered by the current housing crisis.
- A growing share of the state's population will be from communities of color.
- The rental market is tightening with declining vacancy rates, which may increase the demand for new construction of rental in the near future. In addition, with a decline in homeownership, there will probably be a renewed interest in rental housing.
- There is a strong need to preserve Minnesota's existing stock of affordable housing. For example, staff estimate that roughly 30% of Minnesota's 31,000 Section 8 units are at risk of opting out of the program in the next five years.
- There is a growing recognition that transportation cost plays a key role in the overall affordability of housing.

Finally, Minnesota is not monolithic. Needs and challenges vary around the state. A need or challenge in one part of the state may not be a need or challenge in another.

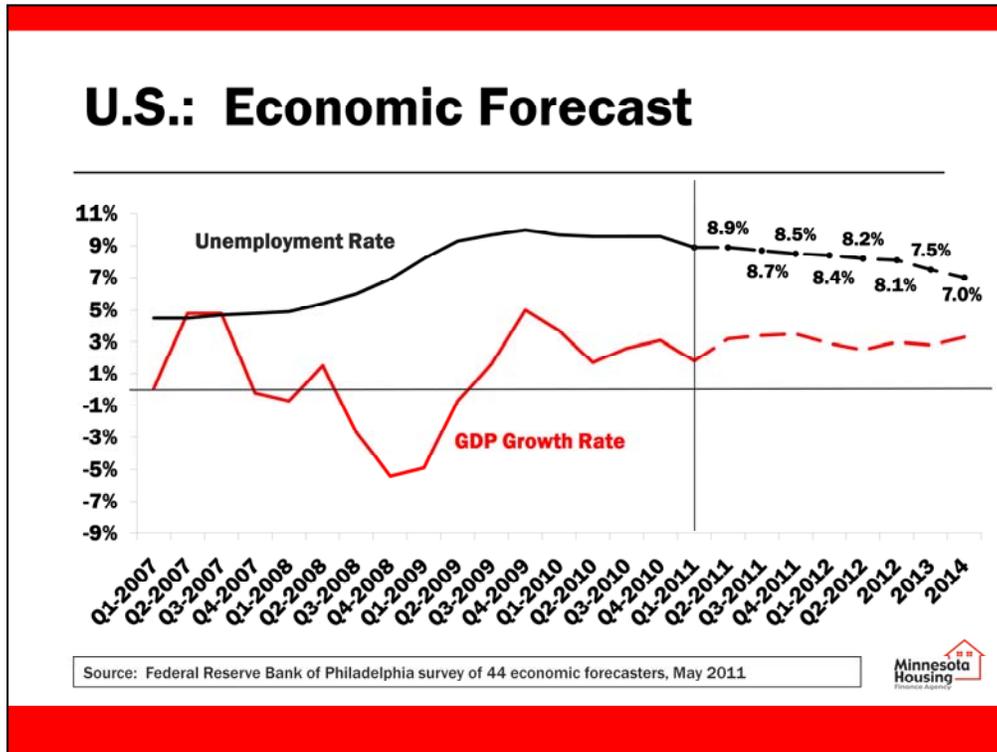
The following slides will provide information about each of these trends.

Discussion Item #1a: Continuing Instability and Uncertainty

Great Recession and Slow Recovery



We'll start with continuing instability and uncertainty and examine the country's slow recovery from the "Great Recession."



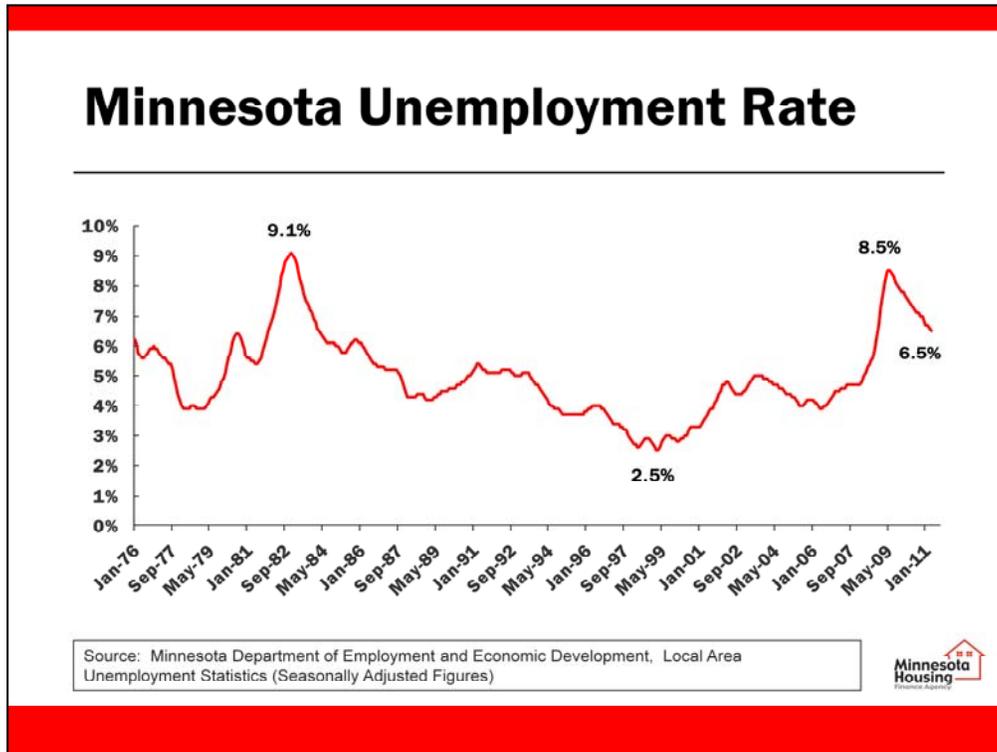
This graph shows the performance of the U.S. economy.

Reading the Graph

- The solid lines on the left side of the graph show actual performance between the first quarter of 2007 and the first quarter of 2011.
- The dashed lines on the right side are projected performance through 2014.

Key Points

- The economy was in a deep recession in 2008 and 2009, with economic activity bottoming out during the fourth quarter of 2008, during which gross domestic product (GDP) declined at an annualized rate of 5.4 percent.
- The deep recession sent the national unemployment rate to 10 percent.
- The recovery has been slow. During post World War II recoveries, GDP grew on average by 6.8 percent in the year after the recession. In 2010, growth was just under 3 percent, which is a slow and lackluster recovery.
- The lackluster and slow recovery will keep unemployment rates high through 2014. It is going to take a long time for the economy to recreate the jobs lost during the recession



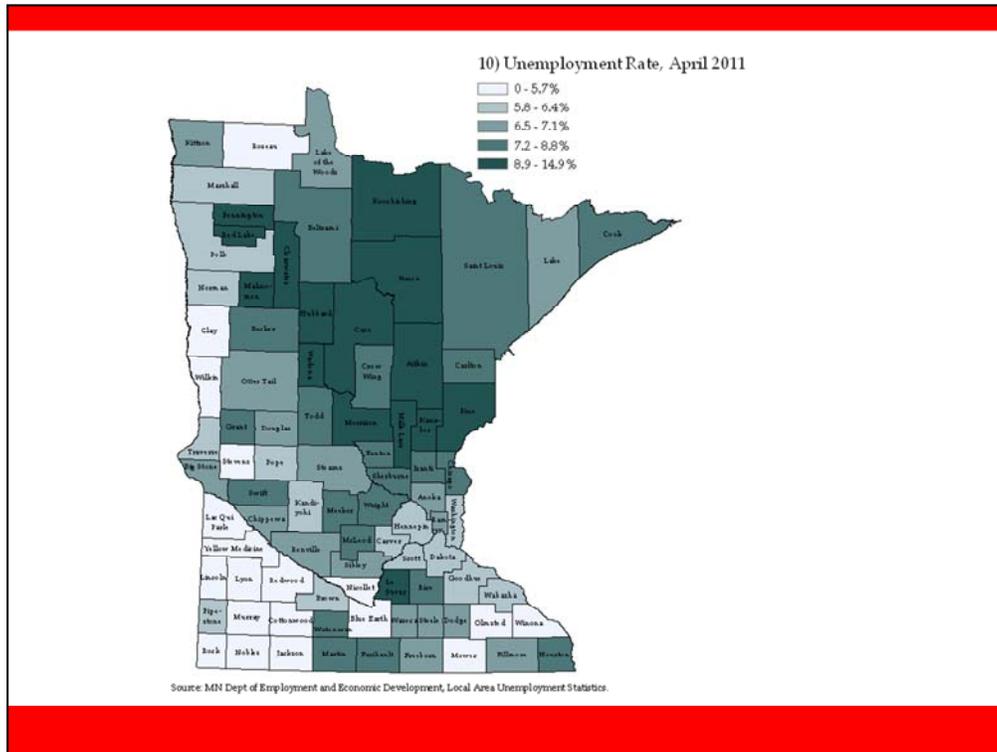
If we look at the situation in Minnesota, the picture is a little bit better.

Key Points

- The unemployment rate in Minnesota is lower than the national level and has shown more improvement.
- Nevertheless, 6.5 percent is still a relatively high rate.
- The graph also shows how the unemployment rate in the current recession compares with other recessions – the early 80s, early 90s, and early 2000s.

Implications

- Unemployment:
 - Reduces families abilities to make rent and mortgage payments,
 - Can lead to mortgage delinquencies and foreclosures,
 - Can lead to homelessness, and
 - Can lead some renters to double up and move in with family and friends, which increases rental vacancy rates.



The unemployment rate varies widely in Minnesota.

Key Points

- By county, rates vary from 3.9% to 14.9% percent.
- Generally, rates are lower in the southwest and higher in the north central counties.

Implications

- The impact of the recession and high unemployment on the housing market will vary by region within the state.

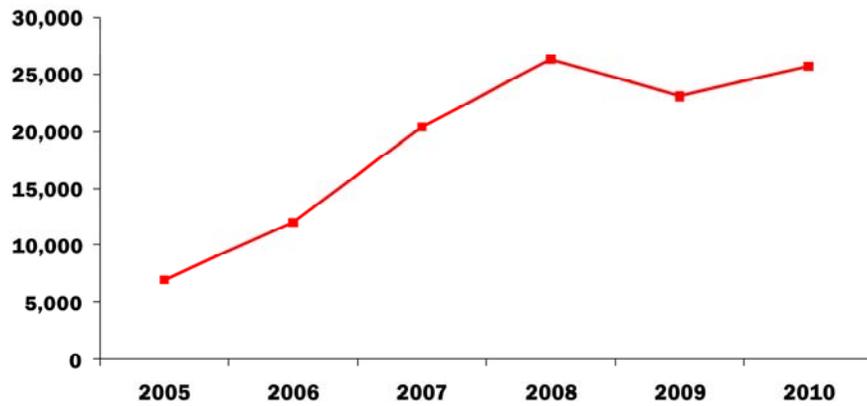
Discussion Item #1b: Continuing Instability and Uncertainty (continued)

Foreclosure Crisis and Declining Property Values



We'll now examine another issue related to continuing instability and uncertainty – the foreclosure crisis and declining property values.

MN: Number of Sheriff Sales



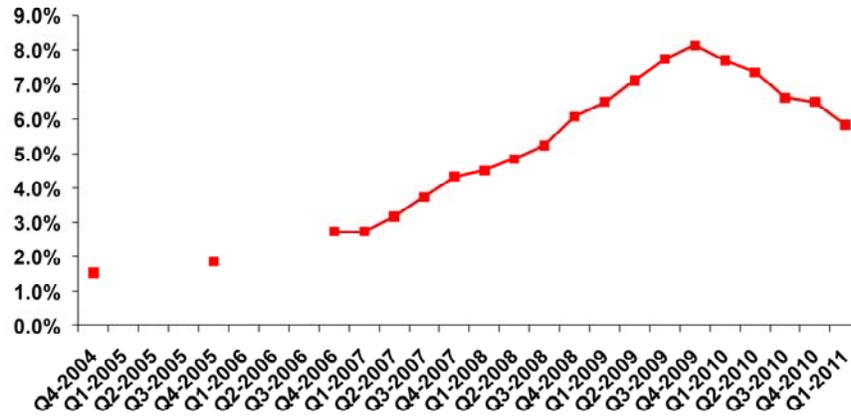
Source: Minnesota Housing analysis of data from Housing Link. Data were adjusted to account for missing data in a few counties



Key Points

- The state has seen a dramatic increase in foreclosures since 2005, rising from 7,000 in 2005 to 26,000 in 2008.
- The number dropped to 23,000 in 2009 but rose to nearly 26,000 again in 2010.

MN: Loans 60+ Days Past Due or In Foreclosure



Source: Minnesota Housing analysis of data from Mortgage Bankers Association's National Delinquency Survey. In foreclosure means legal documents have been filed but sheriff sale has not occurred.



Reading the Graph

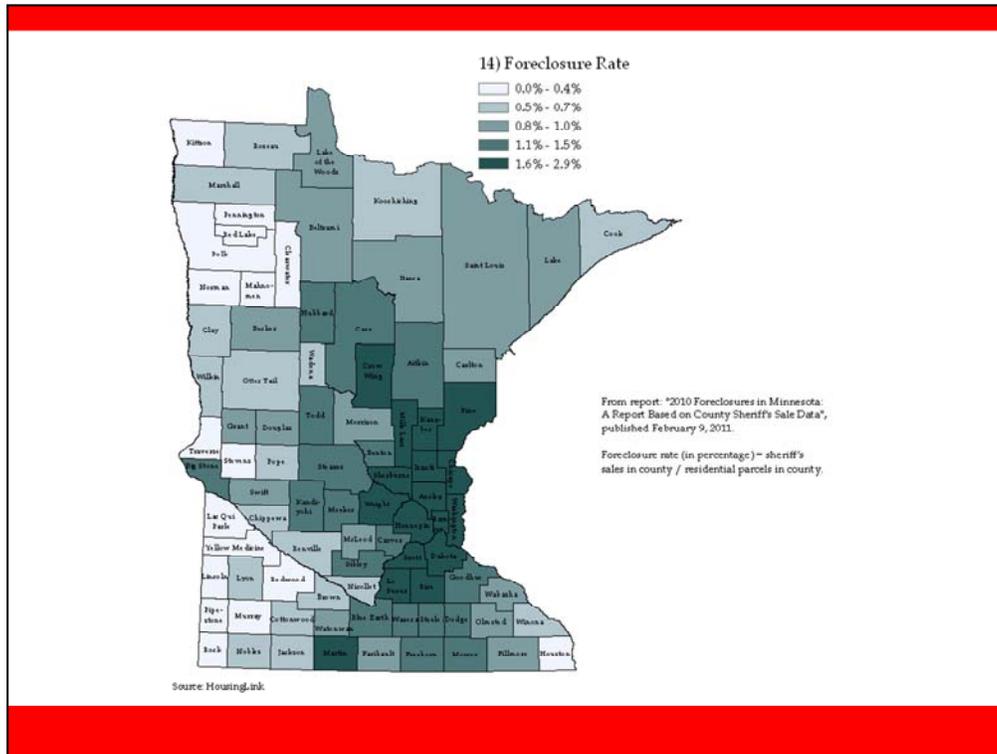
- The graph shows the number of loans in delinquency or foreclosure – i.e. loans at least 60 days past due, including loans in foreclosure (legal foreclosure documents filed but sheriff sale has not yet occurred).

Key Points

- On the positive side, the number of loans in delinquency or foreclosure has declined for the five most recent quarters.
- On the negative side, having 5.84% of loans in delinquency or foreclosure is still very high from a historical perspective.

Implications

- While there are initial signs that the delinquency problem is starting to taper off, there are still a lot of delinquent loans, which may become foreclosed.



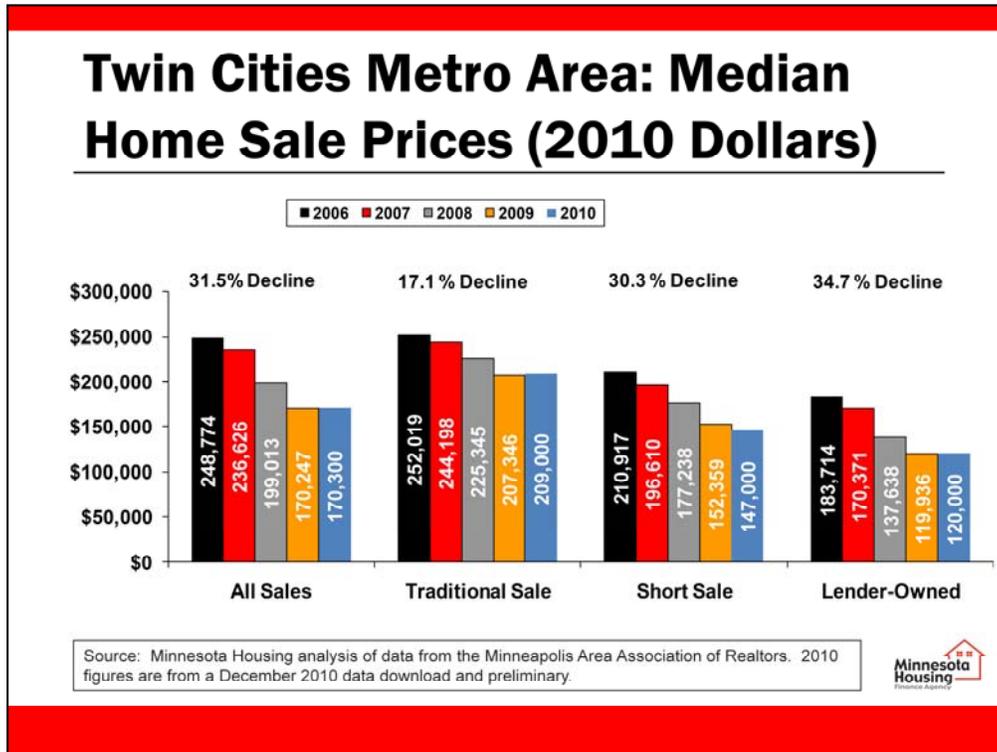
The rate of foreclosure is very different in different parts of the state.

Reading the Map

- This map shows the number of sheriff sales per residential partial in each county.

Key Points

- Foreclosures have been concentrated in the Twin Cities metro area and surrounding counties.
- Communities in North Minneapolis, the Eastside of St. Paul, and in the collar communities of Wright, Sherburne, and Isanti counties have been hit the hardest.



The foreclosure crisis has had a dramatic impact on housing prices.

Reading the Graph

- This graph shows median home sale prices and changes in median prices for the metro area for 2006 through 2010 (adjusted for inflation).
- The data are broken out into four segments:
 - All sales,
 - Traditional sales,
 - Short sales, and
 - Lender-owned sales (foreclosed properties).

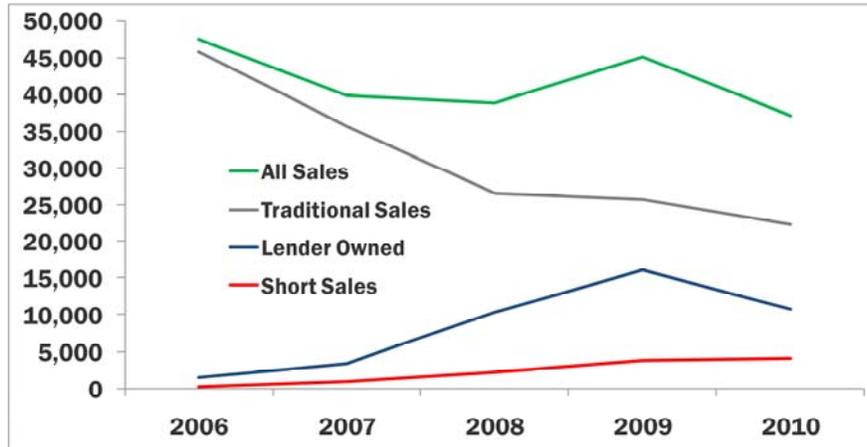
Key Points

- Lender-owned sales and short sales have seen the largest price decline between 2006 and 2010, respectively declining by 34.7 percent and 30.3 percent.
- Comparatively, traditional sales have seen a more modest decline (17.1 percent).

Implications

- With the foreclosure crisis, housing prices have declined dramatically.
- The level of decline depends on the market segment that is examined.

Twin Cities Metro Area: Volume by Type of Sale



Source: Minnesota Housing analysis of data from the Minneapolis Area Association of Realtors. Data for 2010 are preliminary.

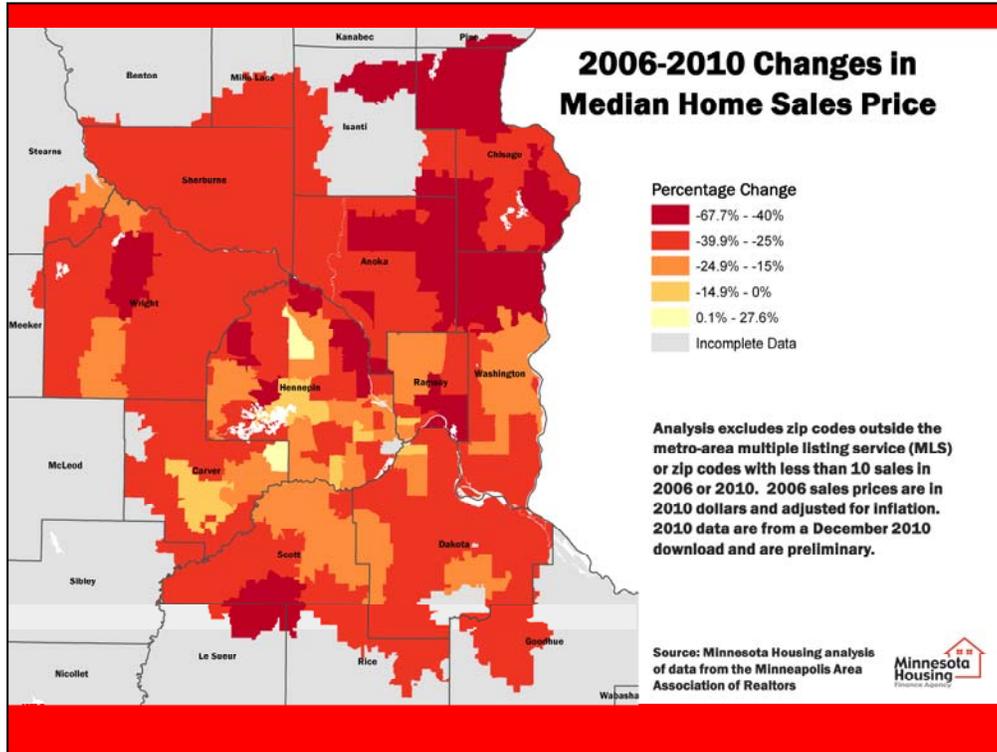


Reading the Graph

- This graph shows the number of sales by market segment – all sales, traditional sales, lender-owned sales, and short sales.

Key Points

- In 2006, almost all sales were traditional sales, with very few lender-owned or short sales (4%).
- By 2009, nearly half (44%) of sales were lender-owned or short sales.
- The percentage of lender-owned and short sales dropped a little to 39% in 2010.
- The 31.5 percent decline in the median sale price for all sales (shown on the previous slide) was driven by two factors:
 - Price declines in traditional, short, and lender-owned sales, and
 - A dramatic increase in the number of lender-owned and short sales (which have lower median sales prices than traditional sales). As these lower-priced homes accounted for a growing share of the sales, the median home sale price declined.



Once again, Minnesota is not monolithic. Price declines have varied widely around the state.

Reading the Map

- This map shows median home sale price changes for the metro area between 2006 and 2010, based on data that the Minneapolis Area Association of Realtors provided from the metro region MLS.

Key Points

- Generally, areas with higher foreclosure rates have had larger price declines.
- The price declines ranged from a 67.7 percent decrease in North Minneapolis to a price increase in north central Hennepin and northwest Carver.

Underwater Mortgages

- **Percentage of mortgages with negative equity:**
 - » **CoreLogic – 15.9% for Minnesota**
(4th quarter 2010)
 - » **Zillow – 46.2% for Minneapolis/St. Paul MSA**
(1st quarter 2011)
- **Implications:**
 - » **Strategic foreclosures – people walking away**
 - » **Limited equity to support home repair loans**



With the price declines, a large share of mortgages are now “underwater.” People owe more on their mortgage than their home is worth. There is negative equity in the home.

Estimates on the percentage of homes that are underwater vary.

- According to CoreLogic, 15.9% of mortgages in Minnesota are underwater.
- According to Zillow, the figure is 46.2% in the metropolitan statistical area of Minneapolis / St. Paul .

Regardless of the source, a substantial number of Minnesotans with mortgages are now underwater, which has several implications:

- Facing the prospect of owing more on their mortgage than their home is worth, some people may decide to walk away from their mortgage and home, which will contribute to the foreclosure crisis.
- People with home repair needs will find it difficult to get a loan for this work, which limits society’s ability to maintain the quality of the existing housing stock.

Discussion Item #2a: Need versus Resources

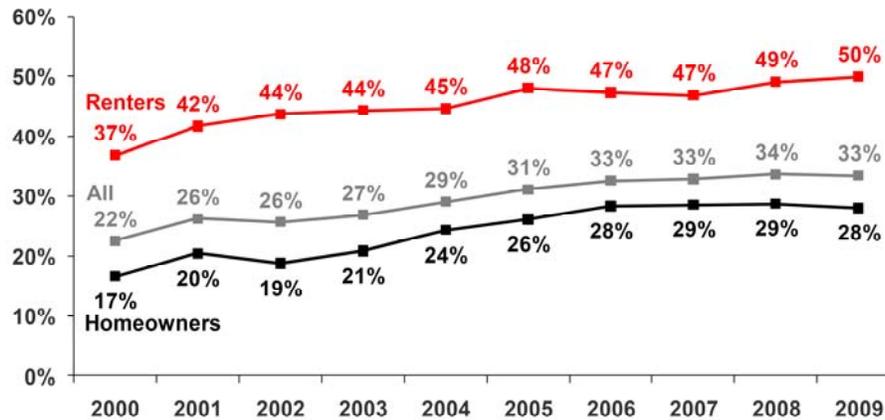
Increasing Cost Burden and Need for Additional Affordable Housing



We'll now turn to the second item for discussion – the growing need for additional affordable housing versus the limited supply of resources to finance the needed housing.

We'll start with the first half of that comparison – the increasing need.

MN: Percentage of Households Spending 30% or More for Housing



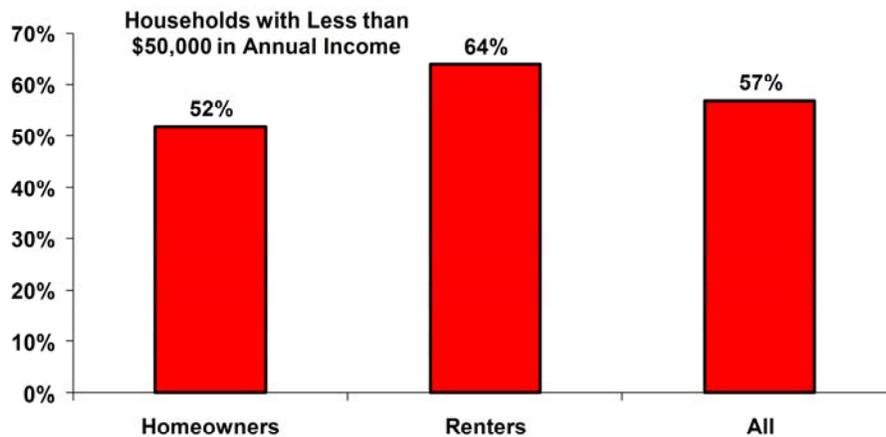
Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-2009)



Key Points

- The percentage of Minnesota renters who are cost burdened has increased from 37 percent in 2000 to 50 percent in 2009. (Red line)
- The percentage of Minnesota homeowners who are cost burdened has increased from 17 percent in 2000 to 28 percent in 2009. (Black line)
- Overall, roughly one in every three households (renter and homeowner) were cost burdened in 2009 as compared with one in very four in 2000. (Gray line)

MN: % of 2009 Lower-Income Households Spending 30% or More



Source: Census Bureau, American Community Survey (2009)



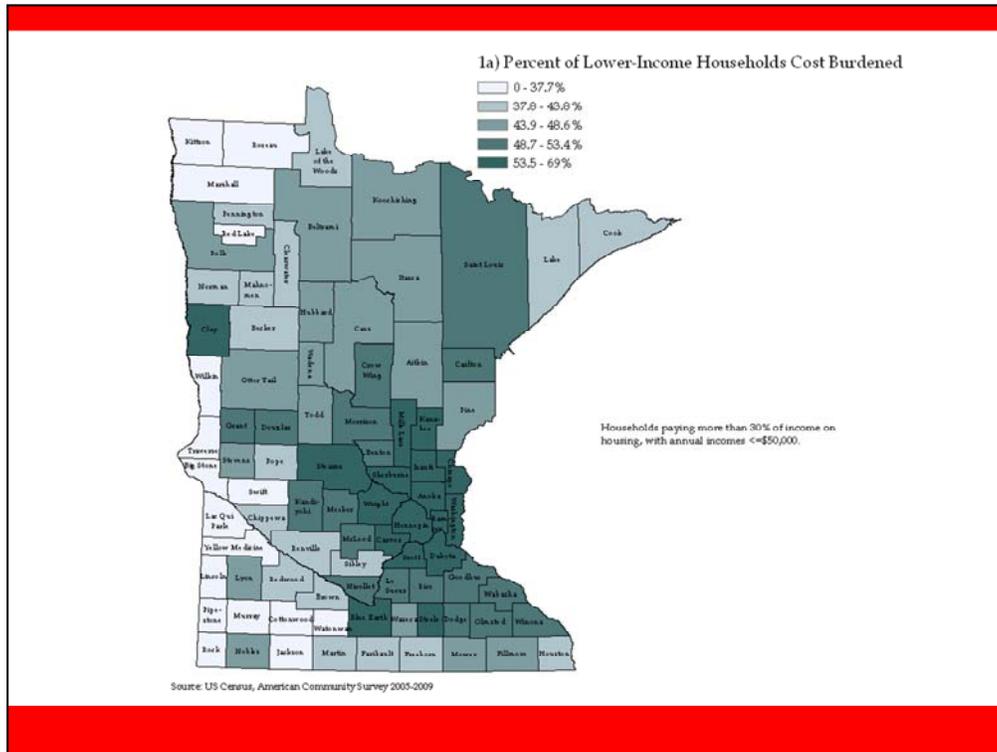
Minnesota Housing's mission is to serve lower-income households. The agency is less concerned with higher-income households that are cost burdened.

Reading the Graph

- This graph shows the percentage of household with an annual income below \$50,000 that were cost burdened in 2009.

Key Points

- Over half of lower-income households are cost-burdened and need housing that is more affordable.
- Nearly two-thirds of lower-income renters are cost burdened.



It is interesting to examine how the percentage of lower-income households that are cost burdened varies around the state.

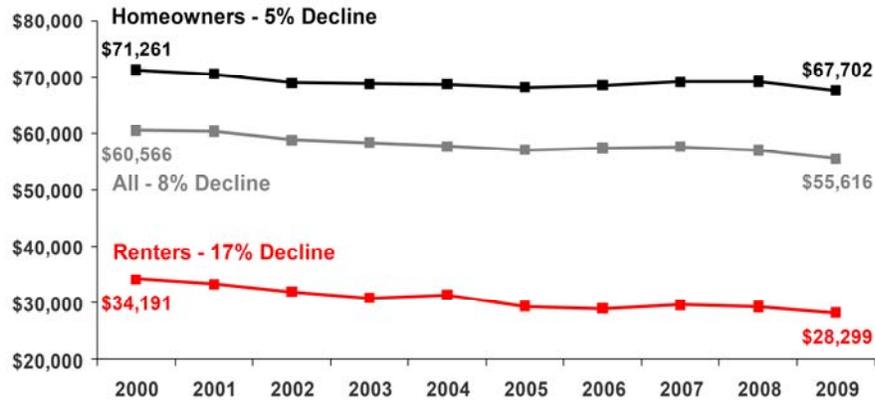
Reading the Map

- This map shows the percentage of households earning less than \$50,000 that are cost burdened by county.

Key Points

- The cost-burdened percentage ranges from 30 to 68 percent.
- The highest cost-burdened percentages are generally in the metro area, and the lowest percentages are in the western part of the state.
- Even the county with the lowest percentage has about 30 percent of its lower-income households cost burdened.

MN: Median Household Incomes (2009 Dollars)



Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-2009)



The cost-burden percentage is the ratio of housing costs to household income.

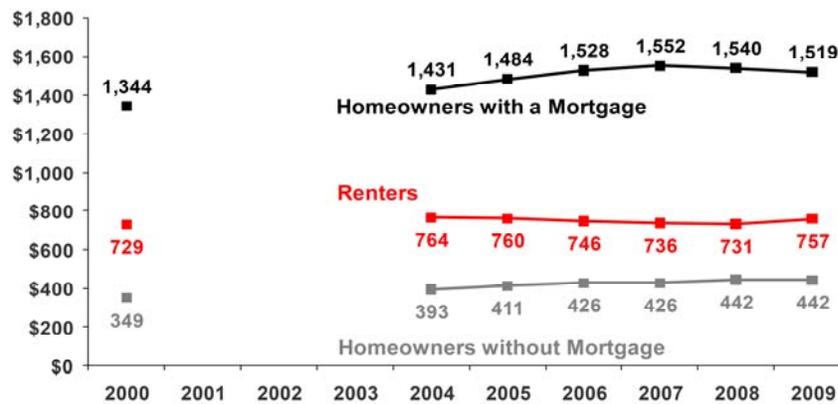
Thus, to understand the cost-burden trends, we need to examine both household income and housing cost trends.

We'll start with household incomes.

Key Points

- Over the last decade, the median income of renters declined by 17 percent after controlling for inflation. (Red line)
- During the same period, the median income of homeowners declined by just 5 percent. (Black line)

MN: Median Monthly Housing Costs (2009 Dollars)



Source: Census Bureau, 2000 Decennial Census and American Community Survey (2004-2009)



After examining the incomes, we now turn to the housing costs.

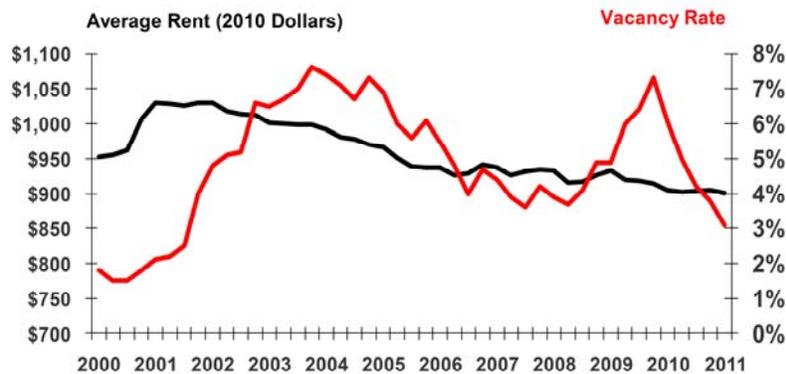
Key Points

- Median rents (after controlling for inflation) started at \$729 and ended at \$757. (Red Line) Rents did rise in the first half of the decade but fell in the later half, with an increase at end.
- In contrast, monthly homeownership costs increased steadily during the decade rising from \$1,344 in 2000 to \$1,552 in 2007. (Black line) The median price cost dropped in 2008 and 2009. The decline is starting to capture the recent decline home sale prices. Nevertheless, costs were up significantly during the decade.

Implications

- Renters have had flat rents but declining incomes. Declining incomes are driving the cost burden increases.
- Homeowners have had increasing housing costs but flat incomes. Increasing housing costs are driving the cost burden increases.

Twin Cities Metro Area: Rental and Vacancy Rates



Source: Minnesota Housing analysis of data from Marquette Advisors



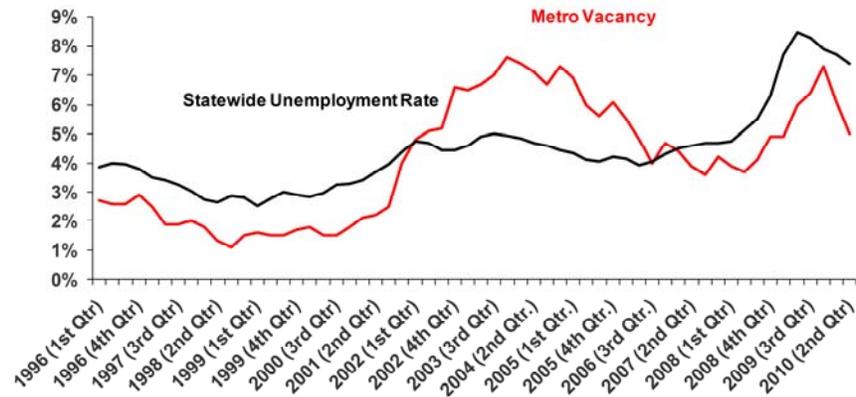
Household incomes are largely outside the control of Minnesota Housing. We don't run an employment program. However, we do operate housing finance programs. Thus, housing costs are a key concern for the agency.

We'll start by examining the market factors that drive rents.

Key Points

- Vacancies play a key role in determining rent levels.
- When vacancies were below 4 percent in the early part of the decade, rents increased in the Twin Cities.
- When vacancies rose above 6 percent between 2003 and 2005, rents declined.
- When vacancies were between 4 percent and 6 percent between 2006 and 2008, rents were flat.
- Falling vacancies will once again likely cause rents to increase.

Unemployment as a Driver of Apartment Vacancy Rates



Source: Minnesota Housing analysis of vacancy data from Marquette Associates and unemployment data from the Minnesota Department of Employment and Economic Development



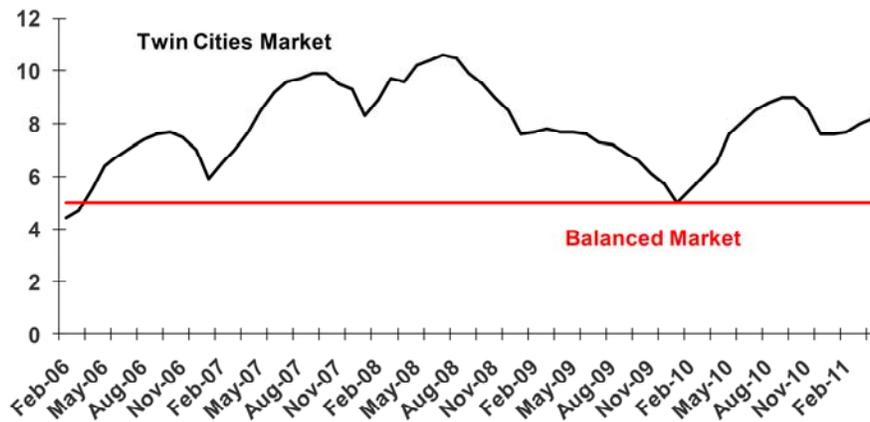
Key Points

- The unemployment rate is a primary driver of the vacancy rate.
- When the unemployment rate is high, the vacancy rate is high because people double up to save money and young adults move back in with their parents.

Implications

- With an improving unemployment rate, the vacancy rate has declined recently.
- In the near-term, with vacancies below 4 percent, we may see increasing rents.

Twin Cities Metro Area: Months Supply of Homes for Sale



Source: Minnesota Housing analysis of data from the Minneapolis Area Association of Realtors



Looking forward, a key leading indicator of housing price trends is the months supply of homes for sale.

Reading the Graph

- This graph shows the months supply of homes for sale in the Twin Cities metro area since early 2006, which has been a period of declining prices.
- The months supply of homes for sale is based on the inventory of homes for sale and how quickly homes are currently selling.
- A five month supply is considered a balanced market – neither a seller's nor a buyer's market.

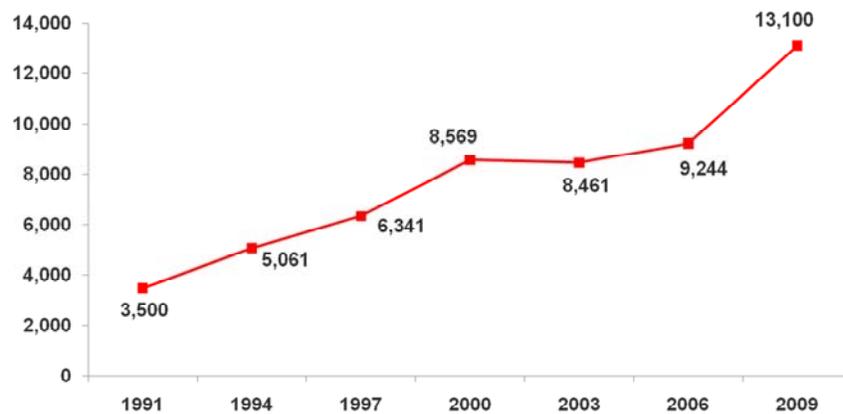
Key Points

- With the support of the homebuyer tax credit, the months supply of homes came down to 5 months, which stabilized home prices.
- However, the months supply has since increased again and was up to 8.2 months in April 2011.

Implications

- As long as the months supply of homes for sale remains high, there will be downward pressure on home prices.

Estimated Number of Homeless in Minnesota on a Given Night



Source: Wilder Research, *Homelessness in Minnesota: Key Findings from the 2009 Statewide Survey*



We're going to shift gears from looking at the general need for affordable housing to a specific, high-level need – homelessness. Having a home is the issue, rather than just being cost-burdened.

Reading the Graph

- This graph shows the estimated number of people in Minnesota experiencing homelessness on a given night.

Key Points

- Homelessness increased between 1991 and 2000, leveled off through 2006, and increased dramatically in 2009.
- The economy is a clear contributor. According to the Wilder survey, 40 percent of homeless adults in 2009 reported a job loss or reduced hours as a reason they lost their housing.

Discussion Item #2b: Need versus Resources (continued)

Declining Resources – Cannot Borrow Funds in the Market at Sufficiently Low Interest Rates

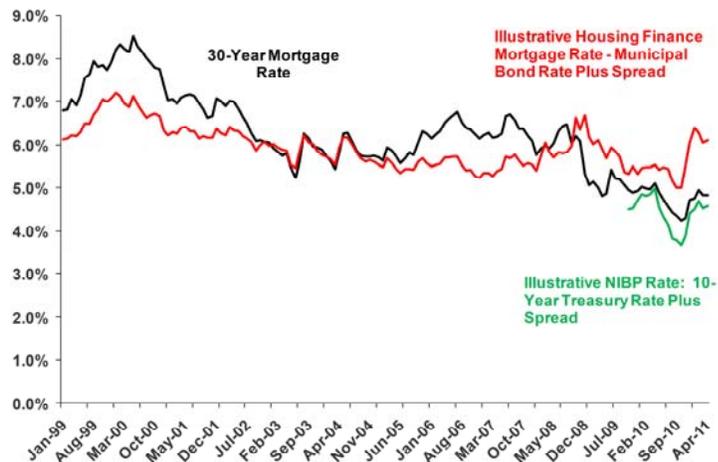


After assessing the need for additional affordable housing, we need to examine the resources that the agency has to finance additional units and preserve existing units.

We'll first examine the agency's ability to access funds in the bond market.

As the following slides will show, without the help of the U.S. Treasury's New Issue Bond Program, Minnesota Housing cannot borrow funds in the bond market at sufficiently low interest rates to make sense for homebuyers.

Not Competitive Without NIBP – Simplified Illustrative Example



Source: Minnesota Housing analysis of data from the Federal Reserve Bank



Minnesota Housing faces a challenging bond market and very low private mortgage rates.

The graph shows a significant simplification of how Minnesota Housing borrows funds in the bond market. In addition, the types of bonds used in the analysis (and their corresponding interest rates) are proxies, rather than the actual types of bonds and interest rates that Minnesota Housing uses. Nevertheless, the data and graphs show the proper relationships and accurately identify the challenges that Minnesota Housing faces in the bond market.

Reading the Graph

- The black line shows the private 30-year mortgage rate.
- Minnesota Housing borrows funds using tax-exempt municipal bonds, adds a spread for administrative expenses and earnings, and then offers mortgages at the rate reflected by the red line.
- With the New Issue Bond Program (NIBP), Minnesota Housing borrows from the U.S. Treasury at the 10-year Treasury rate which has allowed the agency to offer mortgages at the rate reflected by the solid green line after adding a spread.

Key Points

- Prior to the financial crisis that started in the fall of 2008, Minnesota Housing was able to offer mortgages with interest rates below market. (The red line is below the black line.)
- After the crisis, Minnesota Housing has been unable to offer below-market mortgages using its standard financing tool, tax-exempt bonds. (The red line is above the black line.)
- However, NIBP has temporarily allowed the agency to offer mortgages with below-market rates. (The green line is below the black line.)

Discussion Item #2b: Need versus Resources (continued)

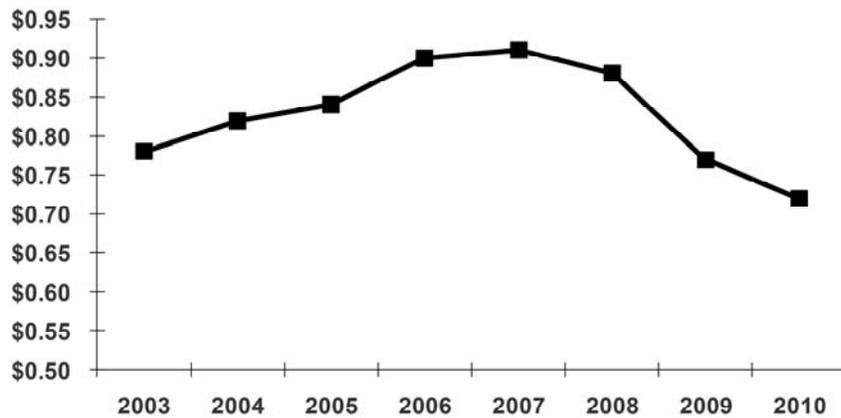
Declining Resources – Housing Tax Credits are Not as Valuable as They Once Were



Moving onto another key financing tool – Housing Tax Credits.

The story is similar to the one faced by mortgage revenue bonds. The market is recovering slowly.

Low-Income Housing Tax Credit Price



Source: Minnesota Housing. Data includes Minnesota Housing and suballocator tax credits.



With the struggling economy, traditional corporate purchasers of tax credits have limited tax liabilities and less interest in the credits. In addition, with the housing crisis, investors are more cautious about investing in housing.

Reading the Graph

- This graph shows the average tax credit price for Minnesota projects over the last eight years.

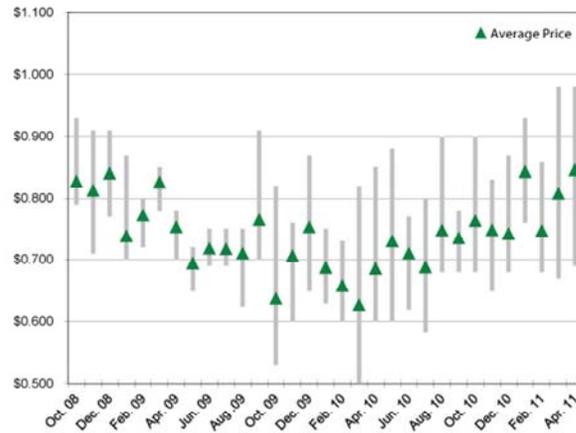
Key Points

- The average price rose from 78 cents to 91 cents but fell to 72 cents.
- However, as the next slide will show, the price of tax credits started to improve in part way through 2010 and into 2011..

Implications

- Without a strong recovery in the tax credit market, Minnesota Housing will have difficulty generating funding for affordable rental housing.
- An annual \$11 million allocation of tax credits would generate \$79 million in syndication proceeds with a \$0.72 price, while it would generate \$100 million with a \$0.91 price. (Tax credits are collected over ten years. Thus, an \$11 million tax credit allocation has the potential to produce \$110 million in tax benefits over the ten years. Depending on the market, these tax benefits sell for between 50 and 98 cents on the dollar.)

Low-Income Housing Tax Credit Price



Source: Novogradac & Company.



As mentioned, tax credit prices started to recover in early 2010.

Reading the Graph

- This graph shows tax credit prices nationally.
- The green triangles are the average prices.
- The gray bars show the range of prices.

Key Points

- Average prices bottomed out in March 2010 at a little more than 60 cents.
- By April 2011, average price had risen to the mid 80 cent range.

Implications

- If prices continue to rise, more funds will be available for affordable housing.

Discussion Item #2b: Need versus Resources (continued)

Declining Resources – Significant Cuts to State Appropriations



During the next biennium, Minnesota Housing is also likely to see a sizable reduction in its state appropriation.

Funding from the State Budget

Base Funding	\$81.8 Million
Governor's Proposed Budget	\$77.2 Million
Legislative Conference Committee	\$75.8 Million



Key Points:

- The agency's base funding from the state is \$81.9 million.
- The agency will likely face a 5.6% to 6.7% cut in its state funding.

Implications:

- Even though state appropriation account for a relatively small portion of the agency's overall budget, these funds go to the deepest subsidies that support the neediest families.

Discussion Item #3a: Key Trends

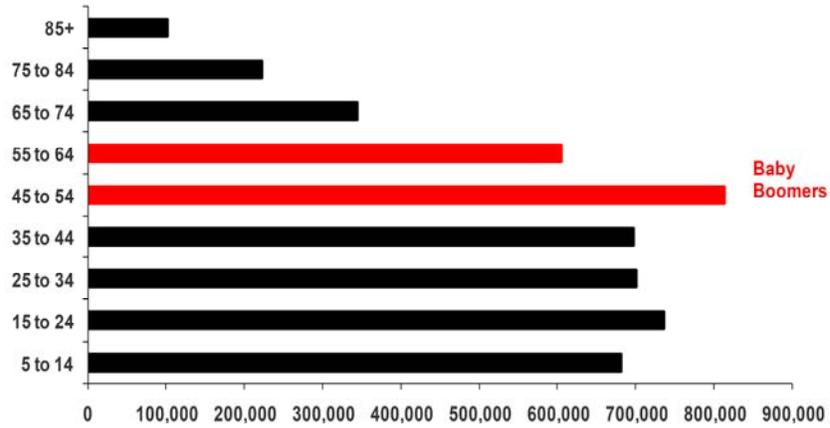
Aging and Retirement of the Baby Boomers



Next, we'll turn to several key trends that are occurring nationally and Minnesota.

We'll start with the aging and retirement of the baby boomers.

Minnesota: Population by Age, 2009



Source: Census Bureau, American Community Survey, 2009

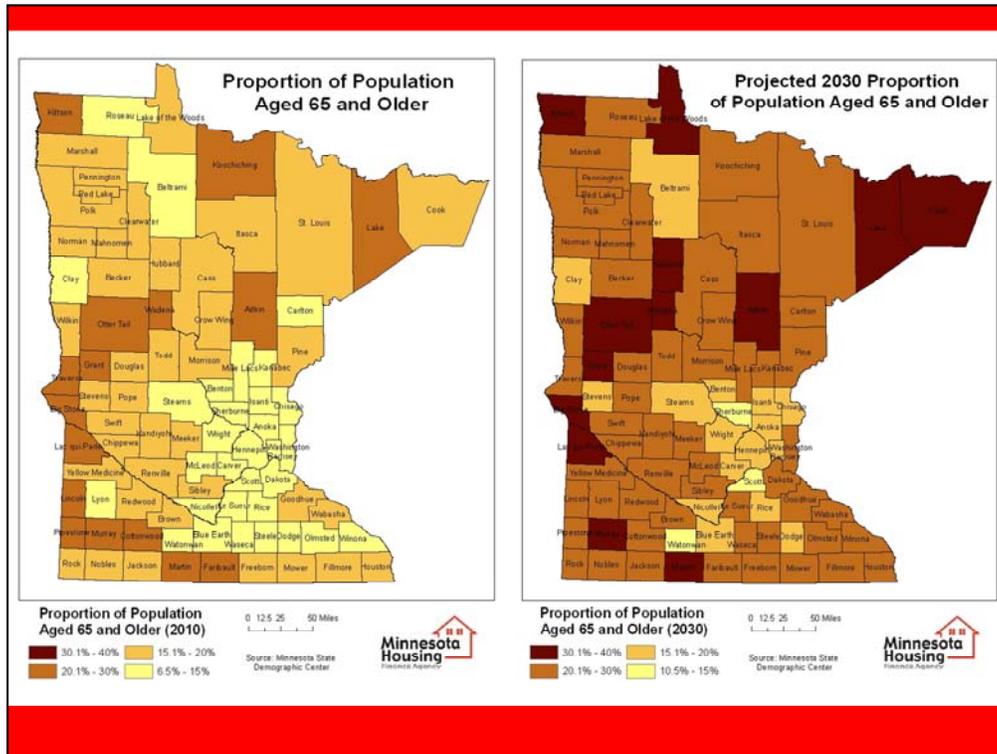


Reading the Graph

- This graph shows the number of people in various age groups for Minnesota in 2009.

Key Points

- The baby boomers (age 45 to 64) are the largest age group, particularly younger boomers – those 45 to 54.



Reading the Maps

- These maps show the percentage of the population in each county that is age 65 or over today (the left graph) and will be age 65 or over in 2030 (when the last baby boomers will be over 65).

Key Points

- Currently, the northern and western counties have particularly older populations, especially those near the borders.
- The state will become dramatically older over the next 20 years. Statewide the number of Minnesotans who are age 65 or over will double between now and 2030. In some counties, seniors will account for nearly 40 percent the county's population.
- Seniors will account for less than 15 percent of the population in only three counties.

Key Trends for Baby Boomers

- **Will dictate housing built over the next decade**
- **Healthier and more energetic**
- **Pushing back retirement and living in life care facilities**
- **Reduced retirement accounts and home equity**
- **Want to stay in their communities**
- **Needs:**
 - » **Housing that is senior friendly, not necessarily senior housing**
 - » **Access to services (health care) and amenities**



This slide identifies some of the key trends and issues associated with baby boomers.

Key Points

- Ever since baby boomers have entered adulthood, they have driven the housing market, and they will continue to do so.
- Baby boomers do not necessarily want to retire the way their parents did. Only a small percentage indicate they want to live in assisted living or senior housing.
- They want to remain active and integrated in the overall community.
- The recent economic downturn has taken a toll on their retirement accounts and home equity. They have less financial means than they otherwise would have.

Implications

- To meet the needs of the retiring baby boomers, Minnesota Housing should consider financing senior-friendly housing with universal design features rather than senior (age-restricted) housing. Senior-friendly housing has features and amenities that not only allow seniors to stay in the community and live independently, but also appeal to other age groups and household types. For example, senior-friendly housing could include single-level living, the capacity to add “grab bars” in bathrooms, the installation of door levers rather than door knobs, etc. These types of homes would also be desirable to families with young children.
- Retrofitting existing affordable housing.
- Access to transportation, services, and amenities will be key.
- Minnesota Housing will study these issues and policy options over the next two years.

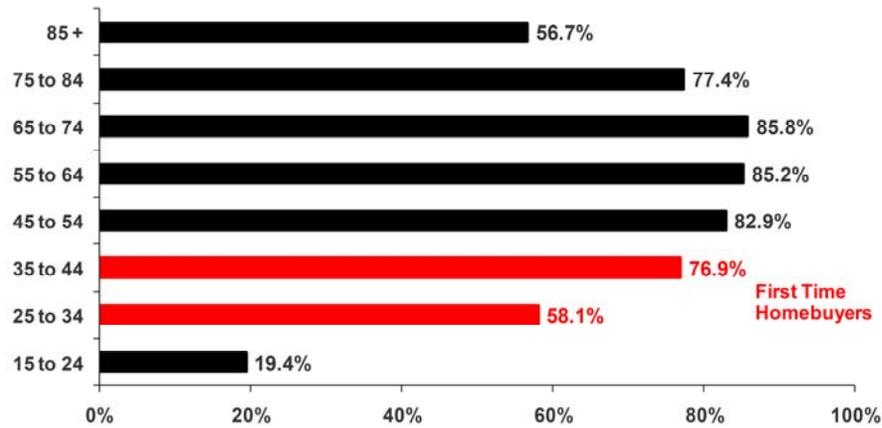
Discussion Item #3b: Key Trends

Generation Y (aka Baby Boom Echo or Millennials) Becoming First-Time Homebuyers



Along with the retirement of the baby boomers, we will see their children (the baby boom echo, generation Y, or millennials) becoming first time homeowners.

Minnesota: Homeownership Rates by Age of Head of Household, 2009



Source: Census Bureau, American Community Survey, 2009



Generation Y is starting to become first-time homebuyers.

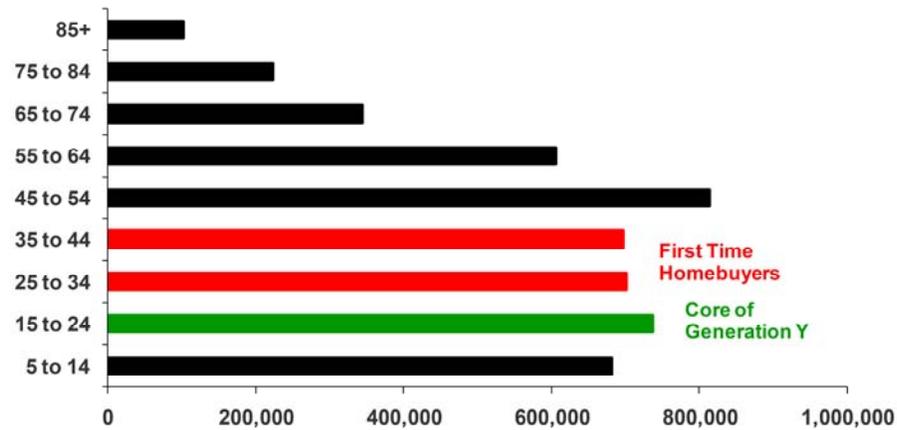
Reading the Graph

- This graph shows the homeownership rate for different age groups.

Key Points

- There is a significant increase in homeownership for people 25 to 34. The rate jumps from 19.4 to 58.1 percent.
- There is another significant increase, but smaller, for people 35 to 44. The rate jumps from 58.1 to 76.9 percent.
- People 25 to 44 are the primary first time homebuyers, especially those who are 25 to 34.

Minnesota: Population by Age, 2009



Source: Census Bureau, American Community Survey, 2009

Minnesota
Housing
Finance Agency

Reading the Graph

- This graph was shown earlier. It shows the number of people in various age groups in Minnesota in 2009. In this version of the graph, the first time homebuyer age group (25 to 44) and the core of generation Y (15 to 24) are highlighted.

Key Points

- The size of the first-time homebuyer age group is at a low point.
- These data are from 2009, when the leading edge of generation Y was 29 and just entering the first-time homebuyer age group. In 2009, the core of generation Y was 15 to 24. Generation Y will be our first-time homebuyers over the next decade or two.
- Generation Y is larger than generation X, which is the generation sandwiched between the baby boomers and their children.

Implications

- From a demographic perspective, the larger size of generation Y should boost the first-time homeowner market.

The First-Time Homebuyer Market in the Future

- **Positive Outlook:**
 - » **Generation Y is a larger cohort than Gen X**
 - » **Affordability has increased with price declines and low interest rates**



Overall, some trends suggest a positive outlook for the first-time homebuyer market, while other trends suggest a more cautious outlook.

Starting with the positive side:

- As just discussed, generation Y is a larger cohort than generation X.
- In addition, with the recent declines in home sale prices and interest rates, homeownership is much more affordable than it was five years ago. The increased affordability could spur additional households to switch from renting to owning. The economy may need to stabilize before additional households make this switch.

Homebuyer Affordability – Overall Market (2010 \$)

- **June, 2006:**
 - Median sale price \$255,000
 - Market interest rate 6.68%
 - Monthly housing payments (PITI) \$2,140
- **April 2011:**
 - Median sale price \$141,000
 - Market interest rate 4.84%
 - Monthly housing payments (PITI) \$1,024

Source: Minnesota Housing based on data from the Minneapolis Area Association of Realtors and the Federal Reserve Bank.



As an example of the increased affordability – the monthly housing payment on a median priced home today is half the payment from five years ago.

They drop from \$2,140 to \$1,024.

These figures are adjusted for inflation and apply to the overall market, including lender-mediated and short sales, which have brought down the median sales price/

Homebuyer Affordability – Traditional Market (2010 \$)

- **June, 2006:**
 - **Median sale price** **\$256,000**
 - **Market interest rate** **6.68%**
 - **Monthly housing payments (PITI)** **\$2,149**
- **April 2011:**
 - **Median sale price** **\$187,000**
 - **Market interest rate** **4.84%**
 - **Monthly housing payments (PITI)** **\$1,359**

Source: Minnesota Housing analysis based on data from the Minneapolis Area Association of Realtors and the Federal Reserve Bank.



When lender-mediated and short sales are excluded and the data only capture traditional sales, the reduction in monthly housing payments is still dramatic – dropping from \$2,149 to \$1,359.

The First-Time Homebuyer Market in the Future (continued)

- **Cautious Outlook:**

- » **Generation X is still in first-time homebuyer age**
- » **Household formation down – generation Y living with parents**
- » **Generation Y likely to change jobs and locations**
- » **Median income growth is flat**
- » **Tighter underwriting standards**

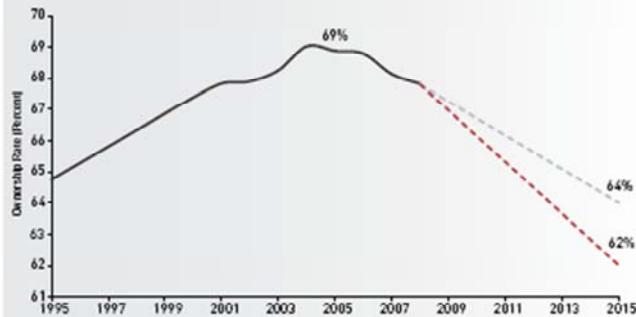


But there are reasons to be less optimistic about the future of the first-time homebuyer market:

- Generation X, which is a small age group, will still be in the first-time homebuyer cohort for several more years. As they move out of the first-time homebuyer cohort, they'll be replaced by generation Y; but this transition will take several years.
- Household formation is down. Generation Y (sometimes referred to as the Peter Pan generation) has a tendency to continue living with their parents. This may change with a revived economy.
- Generation Y may be less inclined to become homeowners for a couple reasons. First, some economists expect annual home appreciation rates to be only 3 or 4 percent over the next decade, meaning that homeowners will need to stay in their homes for at least 10 years to have home value appreciation cover the transaction costs of buying and selling a home. Second, generation Y is expected to be quite mobile switching jobs and locations, which would make staying in one home for ten years unfeasible.
- Median income growth is expected to be flat. Even with modest housing price appreciation, homeownership may once again become unaffordable to many.
- Underwriting standards – credit scores, down payment requirements, debt payment to income ratios – have become stricter, which has limited some renters from becoming homeowners.

U.S.: Homeownership rates

FIGURE 6: U.S. Homeownership Peaked in 2004; Where Will It Stabilize?



Sources: Harvard Joint Center for Housing Studies, *The State of the Nation's Housing 2009*, ULI projections.

Source: Urban Land Institute, *Housing in America – The Next Decade*



With the trends on the previous slide, some people expect the homeownership rate in the U.S. to drop significantly.

Reading the Graph

- This graph shows actual and expected homeownership rates over time, as developed by the Urban Land Institute

Key Points

- Some people expect U.S. homeownership rates to drop below 65 percent by 2015, which is a level not seen since 1995.

Implications

- Minnesota Housing needs to be cognizant of and track trends in homeownership, particularly first-time homeowners, because these trends and the factors driving them will affect demand for our primary revenue generator – single family mortgages for first-time homebuyers.
- A reduced homeownership rate may be appropriate from a societal perspective. Clearly some people got into homeownership over the last decade who should not have. Minnesota Housing wants to promote successful homeownership.

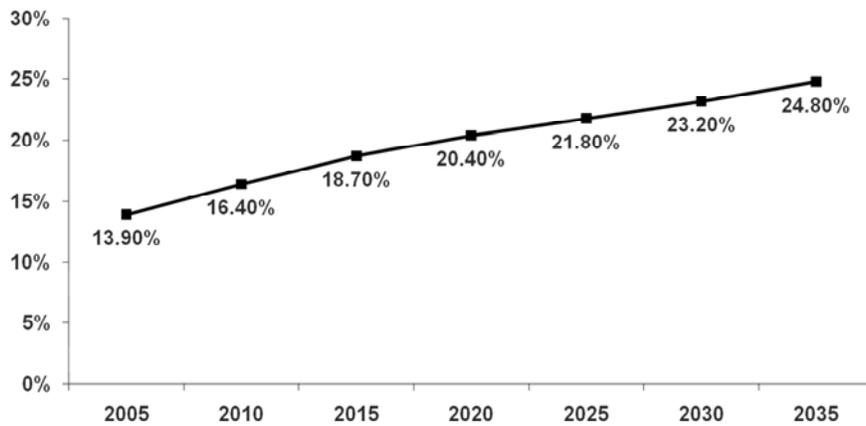
Discussion Item #3c: Key Trends

Increasingly Diverse Population



Minnesota is becoming increasingly diverse, which is another key demographic trend.

MN: Percent of Population from Communities of Color



Source: Minnesota State Demographic Center, *Minnesota Population Projections by Race and Hispanic Origin, 2005 to 2035* (January 2009)

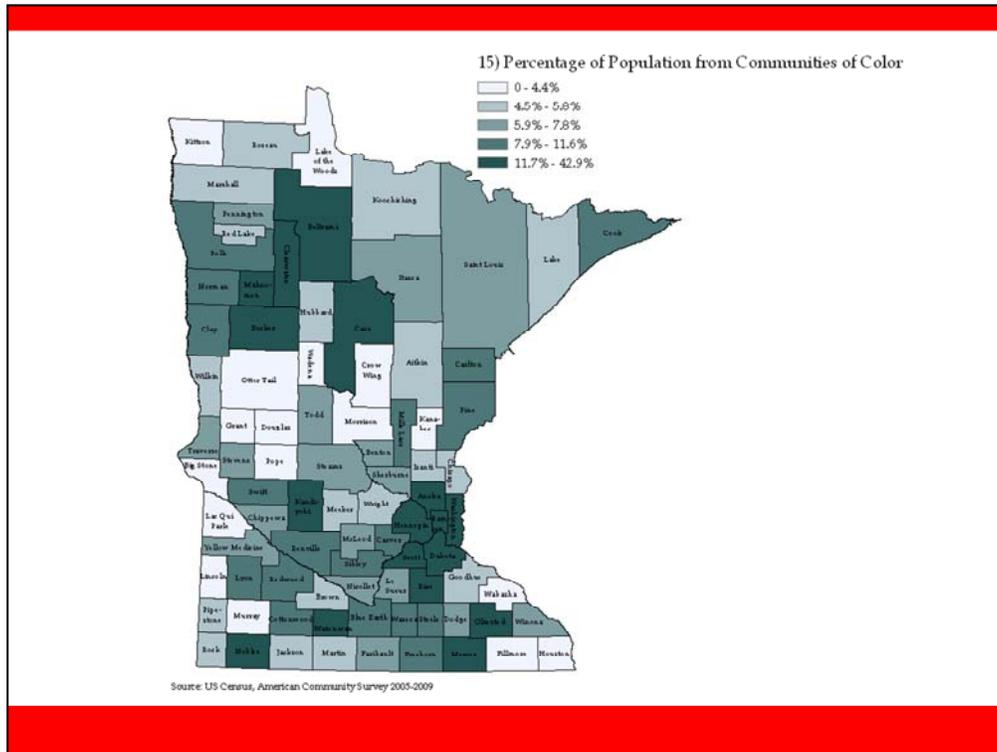


Reading the Graph

- This graph shows the percentage of the state's population that is expected to be from communities of color.

Key Points

- The percentage is expected to increase from 14 percent in 2005 to 25 percent in 2035.



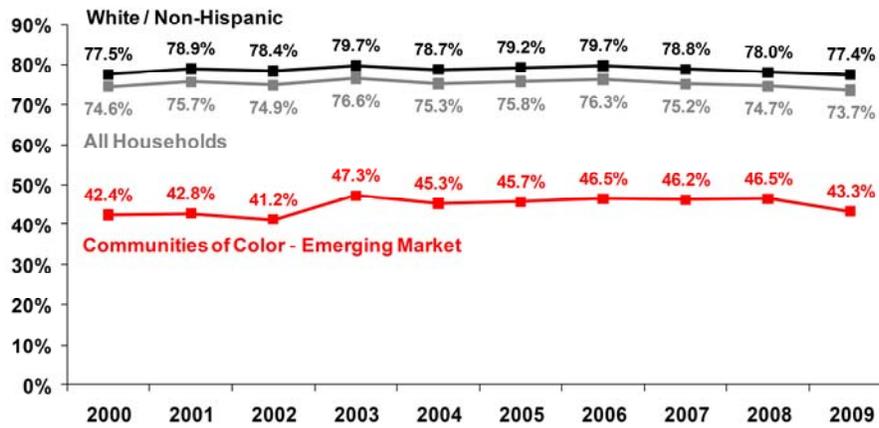
Reading the Map

- This map shows the percentage of the population that is currently from communities of color by county.

Key Points

- Some counties are much more diverse than others.
- The county percentage ranges from 2 to 43 percent.

MN: Homeownership Rates by Race and Ethnicity



Source: Census Bureau, 2000 Census and American Community Survey (2001-2009)



Most households of color are renters.

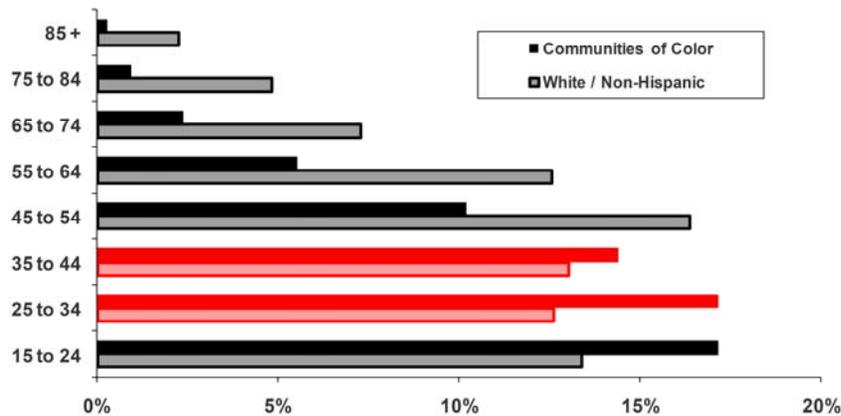
Reading the Graph

- This graph shows the state's homeownership rate over time, broken out by race and ethnicity.

Key Points

- While Minnesota has the highest homeownership rate in the country, we have the fifth largest gap between white/non-Hispanic households and households of color.

Minnesota: Percentage of Population by Race and Age, 2009



Source: Census Bureau, American Community Survey, 2009



Even with an expected decline in homeownership, we have a clear opportunity to decrease the homeownership disparity between white/non-Hispanic households and households of color.

Reading the Graph

- This graph is similar to the earlier one that showed the state's population by age. However, this graph is broken out by race and ethnicity and shows the percentage of the population in each age group, rather than the actual number.
- The first-time homebuyer age group (25 to 34) is highlighted in red.
- Households of color are shown in the solid bars (black or red), and white/non-Hispanic households are shown in hatched bars.
- Looking at the 25 to 34 year olds, the graph shows that 17.2 percent of the communities of color population is in this age group (see the bottom red bar) and that only 12.6 percent of the white/non-Hispanic population is in this age group (see the bottom hatched red bar).

Key Points

- The age distribution for communities of color is very different than the one for white/non-Hispanic households. While the largest age group for white/non-Hispanic population is 45 to 54 (the younger half of the baby-boom generation), the largest age groups for people of color are 25 to 34 (the prime first-time homebuyer population) and 15 to 24 (the group entering their prime home buying age over the next decade).

Implications

- Regardless of policy priorities and from purely a demographic perspective, households of color are going to become a greater share of our market.

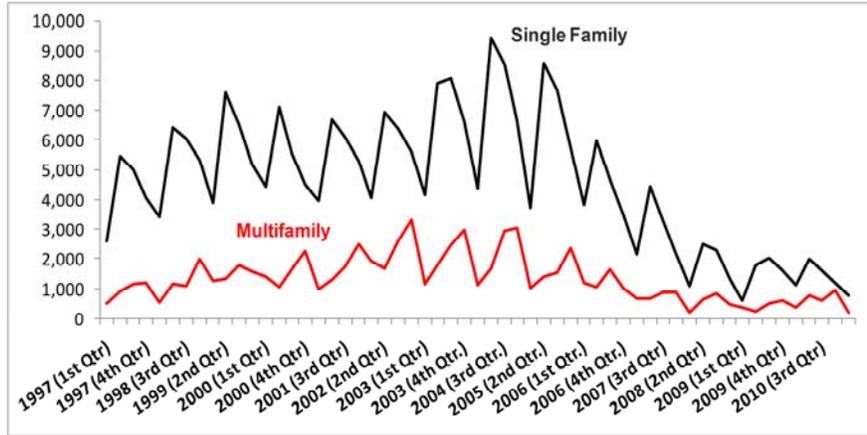
Discussion Item #3d: Key Trends

New Construction: Rental Housing May Start to Recover in Near Future



As the economy recovers, we'll likely see a recovery in rental construction.

MN: Building Permit Data



Source: HUD, State of the Cities Data System



Reading the Graph

- This graph shows the number of building permits issued for single and multifamily construction over the last 13 years.

Key Points

- During the current economic downturn, there has been a dramatic decrease in the level of both single family and multifamily construction, as measured through building permits.
- For example, in the 4th quarter of 2005, permits for over 3,000 multifamily units issued, while in the 4th quarter of 2010, permits for roughly 950 multifamily units were issued.

Recovery of Rental Construction

- **Unemployment declining to 6.5%**
 - » **Less doubling up and more household formation**
 - » **Lower vacancies**
- **Effect of little construction during the last few years hitting market – fewer new units will lower vacancies**
- **Less homeownership means more renting**



We may see recovery in rental construction in the not too distant future.

Key Points

- With unemployment getting closer to 6 percent, we'll see less doubling up and lower vacancy rates, which is already occurring
- With very limited new construction over the last few years, very few new units are coming on the market, which will also lower vacancies.
- The reduction in homeownership discussed in previous slides means an increase in renting. Some of the increased renting may occur in single-family detached homes, but some will likely occur in multifamily housing.

Discussion Item #3e: Key Trends

Preservation: Maintain Existing Stock of Affordable Housing



While new rental construction may become a growing demand, preservation will continue to be a key priority.

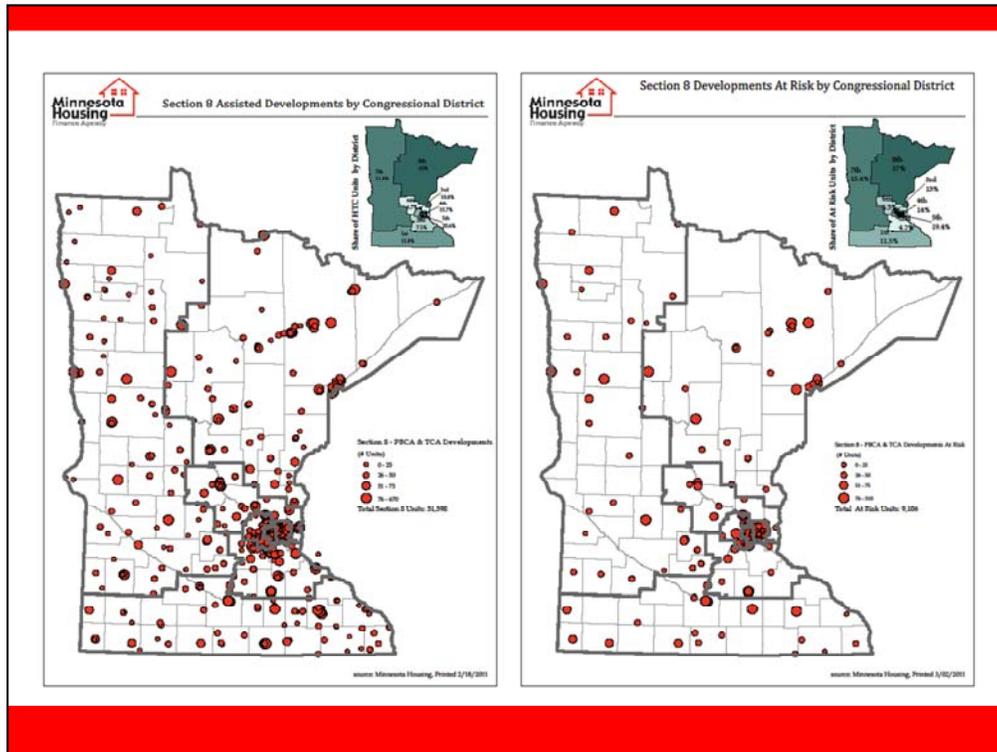
Preserving Existing Affordable Housing

- **Preserving Affordability**
 - » **About 31,000 Section 8 units**
 - » **Roughly 30% are at risk of opting out**
- **Preserving Physical Condition – Maintaining Older Housing Stock**



Key Points

- Based on a preliminary and rough assessment, Minnesota housing staff estimate that approximately 30% of the state's 31,000 Section 8 units are at risk of opting out of the program in the next five years.
- The state also has an aging housing stock. Owners need to maintain the physical condition of this stock. Working with owners to find solutions will be an important agency priority.

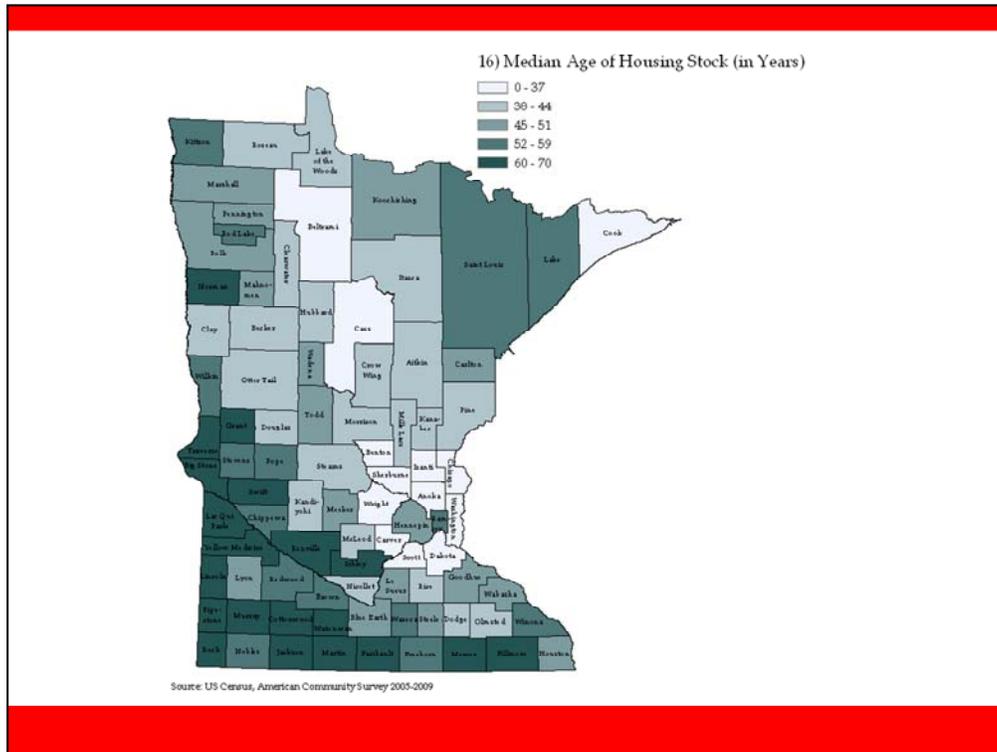


Reading the Graph

- The left map shows all the Section 8 properties in the state.
- The right map shows the at-risk properties.

Key Points

- The at-risk properties and units are located throughout the state.



Reading the Map

- This map shows the median age of the housing stock in each county.

Key Points:

- The housing stock has a median age of more than 60 years in several parts of the state, particularly in the southwest.

Discussion Item #3f: Key Trends

Housing Plus Transportation Costs: Locating Housing Near Jobs and Transit



Another key trend is the recognition that we need to consider both housing and transportation costs when we think about affordability.

To reduce transportation costs, it is important to locate affordable housing near the places that lower-income workers are employed or near public transportation.

Alternative Affordability Framework

- **Average working family (\$20K - \$50K) spends 57% of income on housing and transportation.**
- **On average, for every dollar saved in housing costs by moving away from employment centers, transportation costs increase by over 77 cents.**
- **After 12 to 15 miles, increase in transportation costs outweigh savings in housing costs.**

Source: Center for Housing Policy, *A Heavy Load: The Combined Housing and Transportation Burdens of Working Families*, October 2006



Key Points

- The average working family spends about 57 percent of their income on housing and transportation.
- Some families move away from employment centers to find more affordable housing. However, this often not cost effective.
- On average, for every dollar saved in housing costs by moving away from an employment center, transportation costs increase by over 77 cents.
- In fact, after 12 to 15 miles, increases in transportation costs typically outweigh savings in housing costs.

Implication

- To minimize overall cost burdens, Minnesota Housing needs to locate affordable housing where lower-wage workers are employed or near public transportation.

Overall Conclusions

- **Until the economy recovers and the foreclosure crisis subsides, our external environment will be remain unstable.**
 - » **Need to be flexible and respond quickly to changes**
- **We will have limited and shrinking resources to deal with a growing affordable housing problem.**
 - » **Need to be more strategic and targeted in our resource allocation.**



Overall Conclusions (continued)

- **Baby boomers, generation Y, and communities of color will have a big impact on our operations.**
 - » **Need to understand their housing needs and behaviors.**
- **Homeownership rates will likely decline, and the rental market is tightening.**
 - » **Need to determine where resources can be best utilized to provide affordable choices.**



Overall Conclusions (continued)

- **Preservation is critical.**
 - » Need to maintain existing affordable housing stock – not just rent subsidies but also physical conditions as affordable stock ages.
- **Housing plus transportation costs**
 - » Need to locate housing near jobs or public transportation.
- **Minnesota is not monolithic. Housing needs vary by region.**
 - » Need to account for regional differences when developing agency priorities and strategies.



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