CELEBRATING 40 YEARS OF AFFORDABLE HOUSING

2012 Affordable Housing Plan

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Minnesota Housing Finance Agency

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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 $659 million, which is $42 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, D – Change Log, and E - 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 20010. 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 E**.

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 $659 million for housing-related investments, which is $42 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	$211,448	$29,499	$240,948
State Appropriations	$58,557	$57,752	$116,309
Bond Proceeds	$290,000	$102,135	$392,135
Housing Investment Fund (Pool 2)	$69,400	$89,939	$159,339
Housing Affordability Fund (Pool 3)	$29,202	$17,178	$46,380
Total	$658,607	$296,503	$955,110

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)

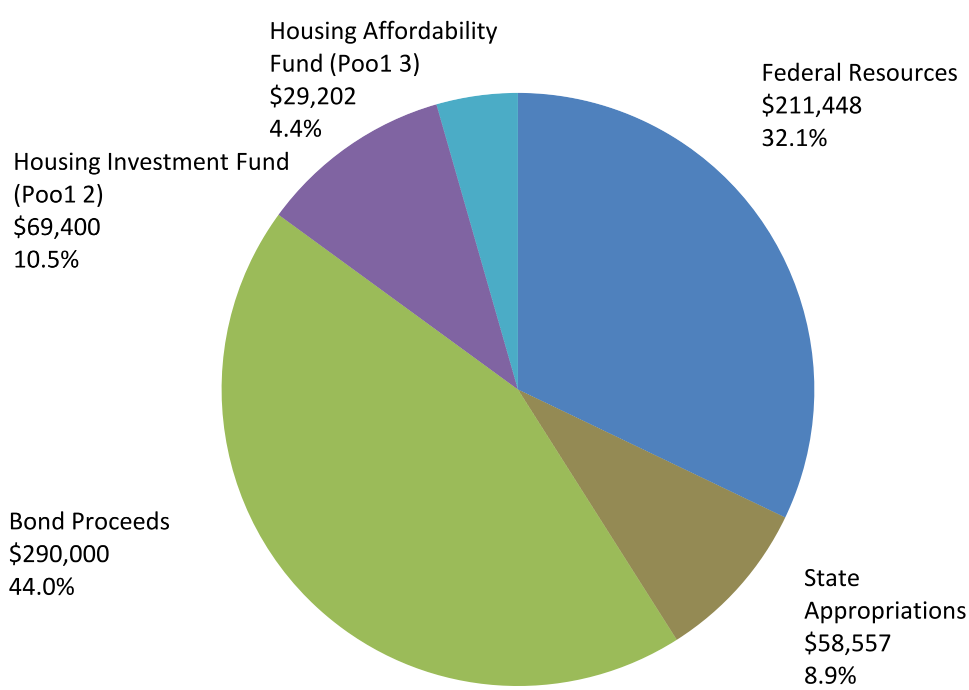
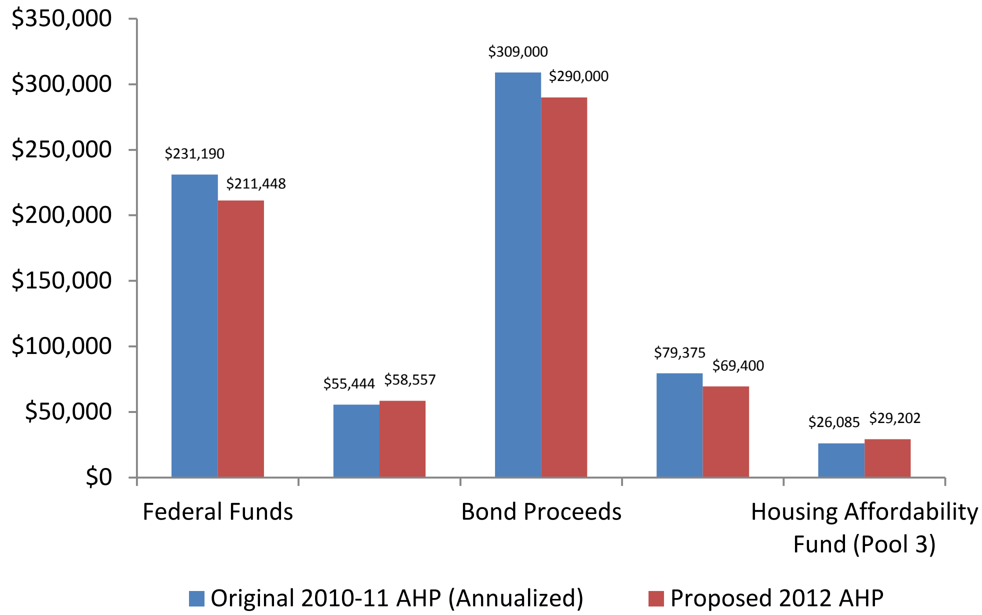


Figure 2: 2010-11 and 2012 Affordable Housing Plans - Annual New Activity (in thousands)



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	$113,621,769
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	$3,101,697
Total	**$701,093,266**	**$658,607,280**

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:

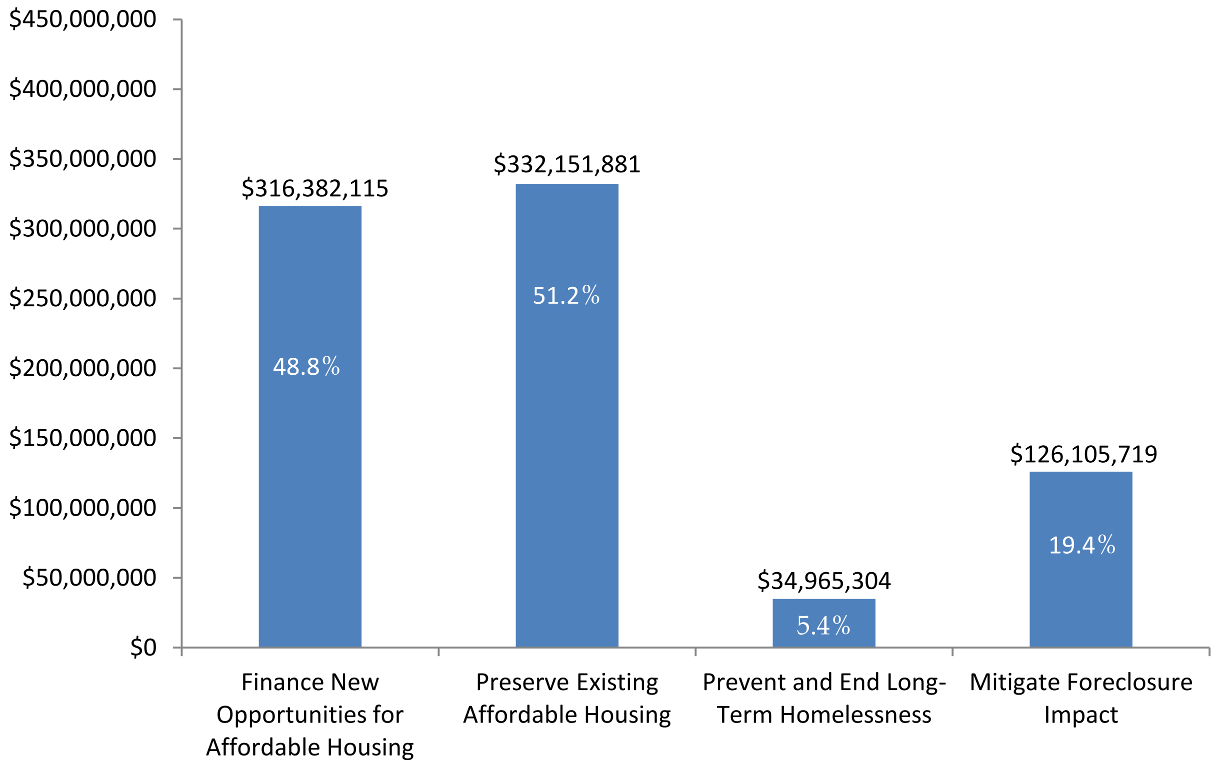
- Finance New Opportunities for Affordable Housing
- Preserve Existing Affordable Housing
- Prevent and End Long-Term Homelessness
- Mitigate Foreclosure Impact through Prevention and Remediation

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.

		Comprehensive Priorities		Targeted Priorities	
Programs	**AHP Total**	**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	***$113,621,769***	***$26,467,852***	***$87,153,917***	***$10,757,762***	***$13,918,239***
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)	$22,313,184		$22,313,184	$2,536,913	$3,029,466
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: Finance New Opportunities for Affordable Housing	Comprehensive Priorities: Preserve Existing Affordable Housing	Targeted Priorities: Prevent and End Long-Term Homelessness	Targeted Priorities: 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	***$3,101,697***	***$0***	***$1,654,457***	***$0***	***$0***
Administrative Expenses HOME	$1,447,240	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 *	***$658,607,280***	***$316,382,115***	***$332,151,881***	***$34,965,304***	***$126,105,719***

* 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.

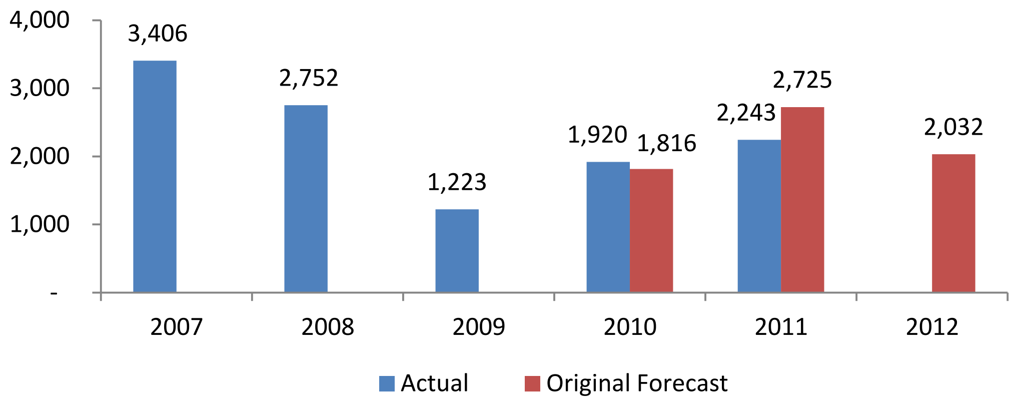
Finance New Opportunities for Affordable Housing

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



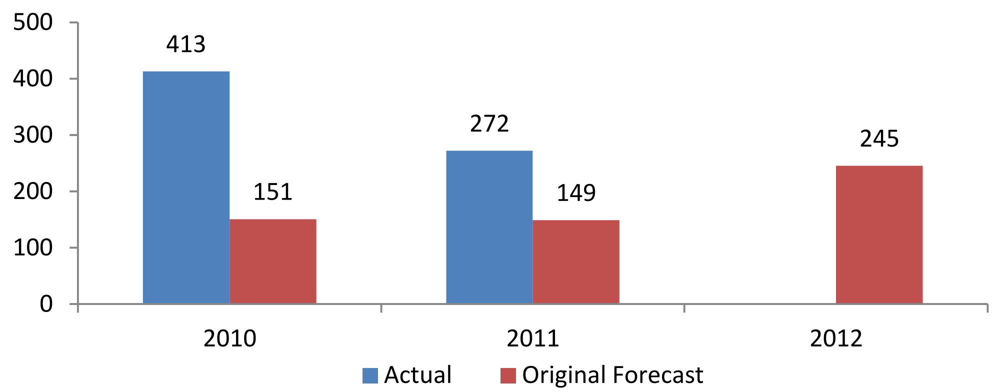
In late 2008, drastic changes shook the housing and mortgage markets. The impact of these changes on Minnesota Housing's business is evident in Figure 4. Minnesota Housing responded to those changes in a variety of ways, including changing its business model from purchasing whole loans to purchasing 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 2009, 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 a little less than the 2011 level. 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.

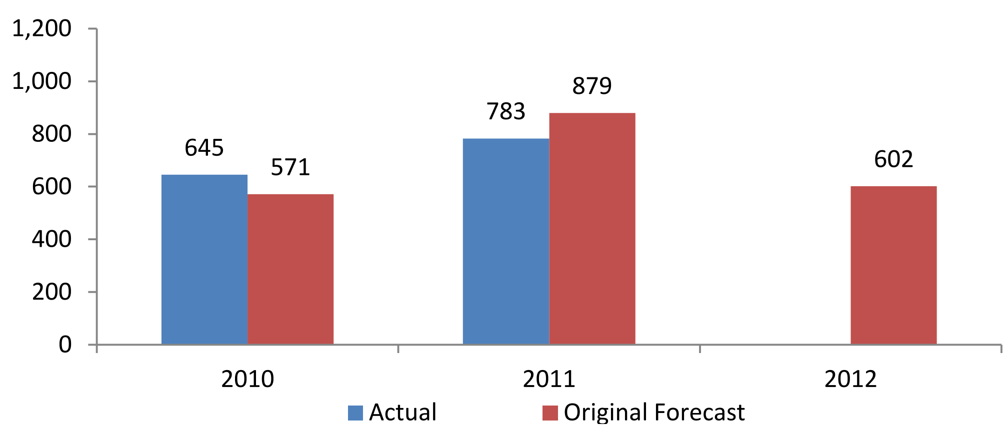
Figure 5: Other New Single-Family Affordable Housing Opportunities, including New Construction and Acquisition/Rehabilitation/Resale



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



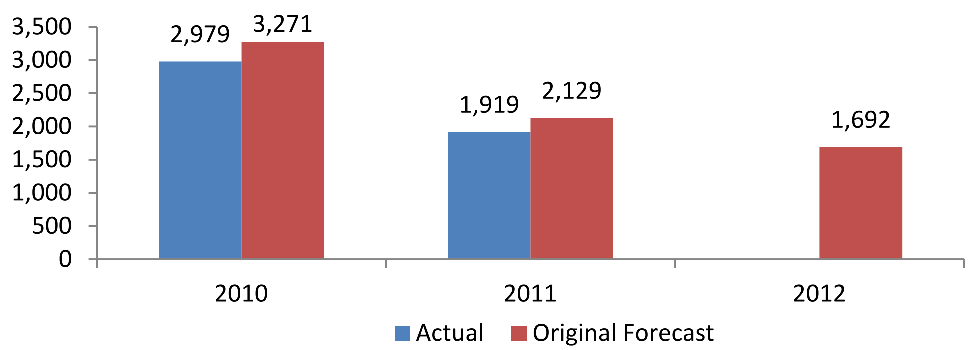
Preserve Existing Affordable Housing

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 less than the level experienced in 2011, which is consistent with market conditions and funding levels.

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.

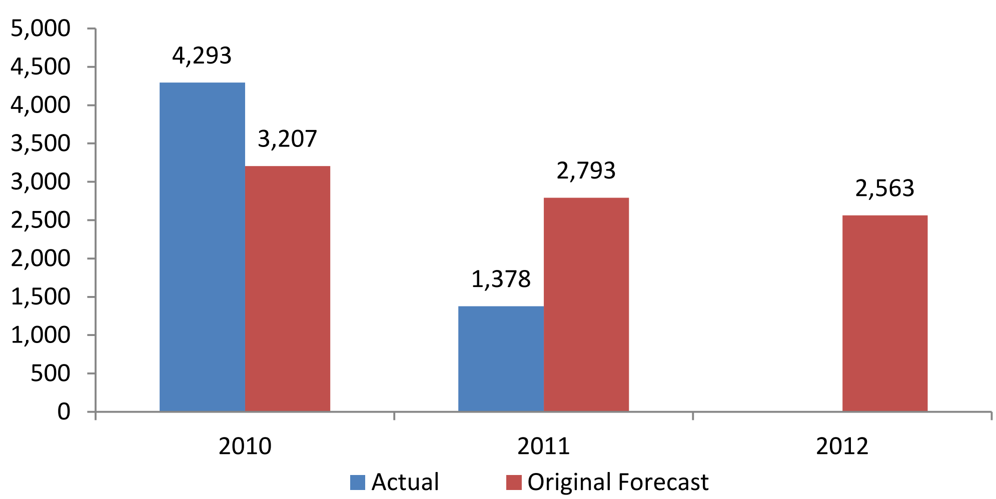
Preservation and Rehabilitation of Rental Housing

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 million 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.)

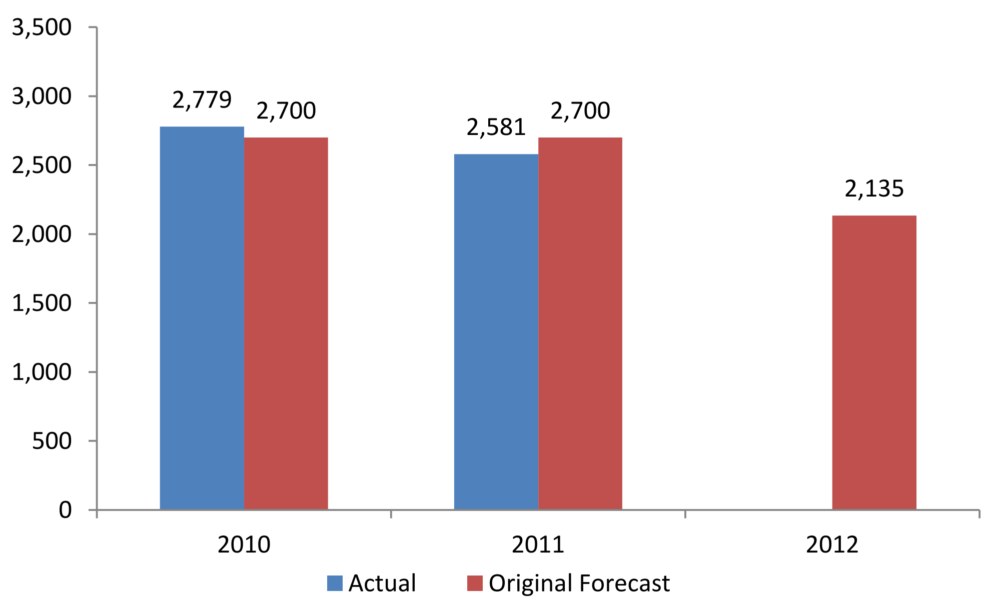
As an administrator of Section 8-financed developments, Minnesota Housing also helps ensure that these properties remain both financially viable and physically decent, and that federal rental assistance continues to support low-income Minnesota households. As a quality administrator, the agency performs 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

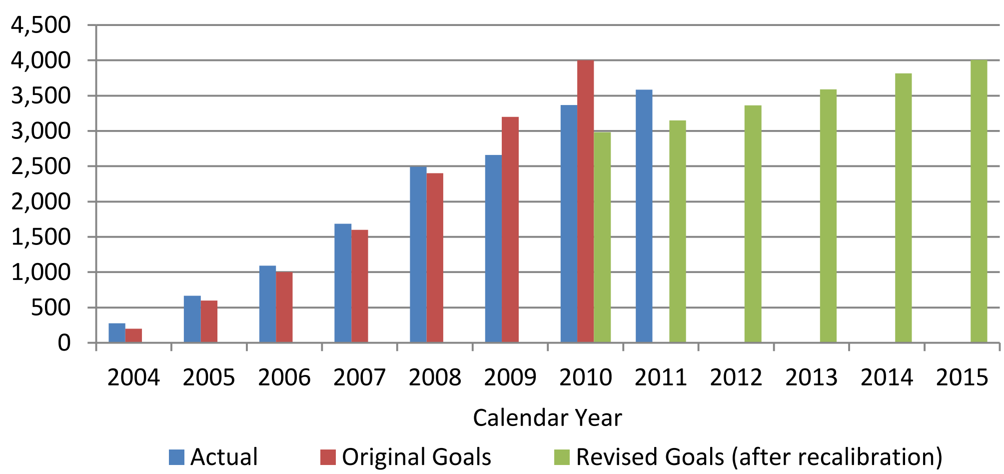
Preventing and ending long-term homelessness is one of the agency's strategic priorities. On the prevention side, the agency funds programs like the Family Homeless Prevention and Assistance Program (FHPAP), which provides short-term assistance for services and housing payments to prevent homelessness.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

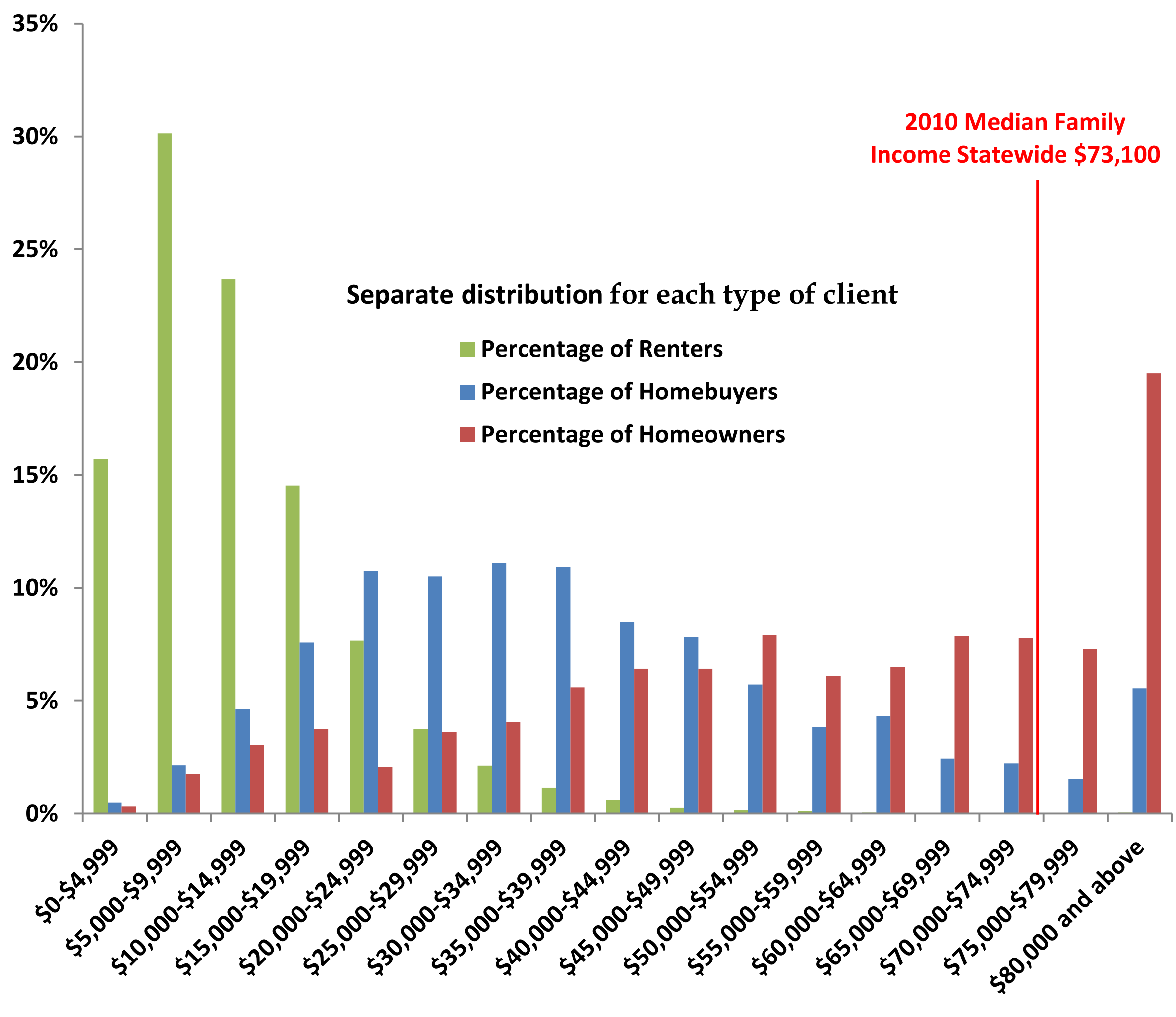


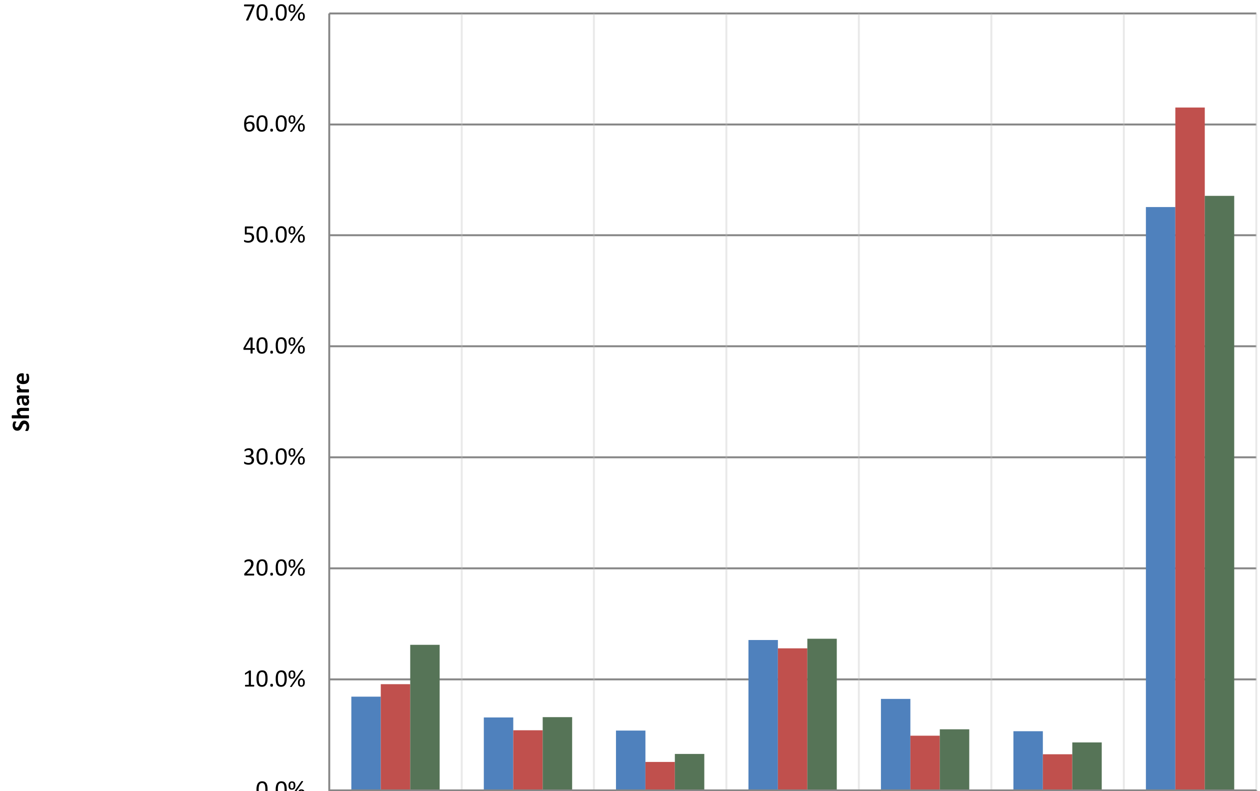
Table 4 presents the median income of households served by various Minnesota Housing programs in 2010.

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]

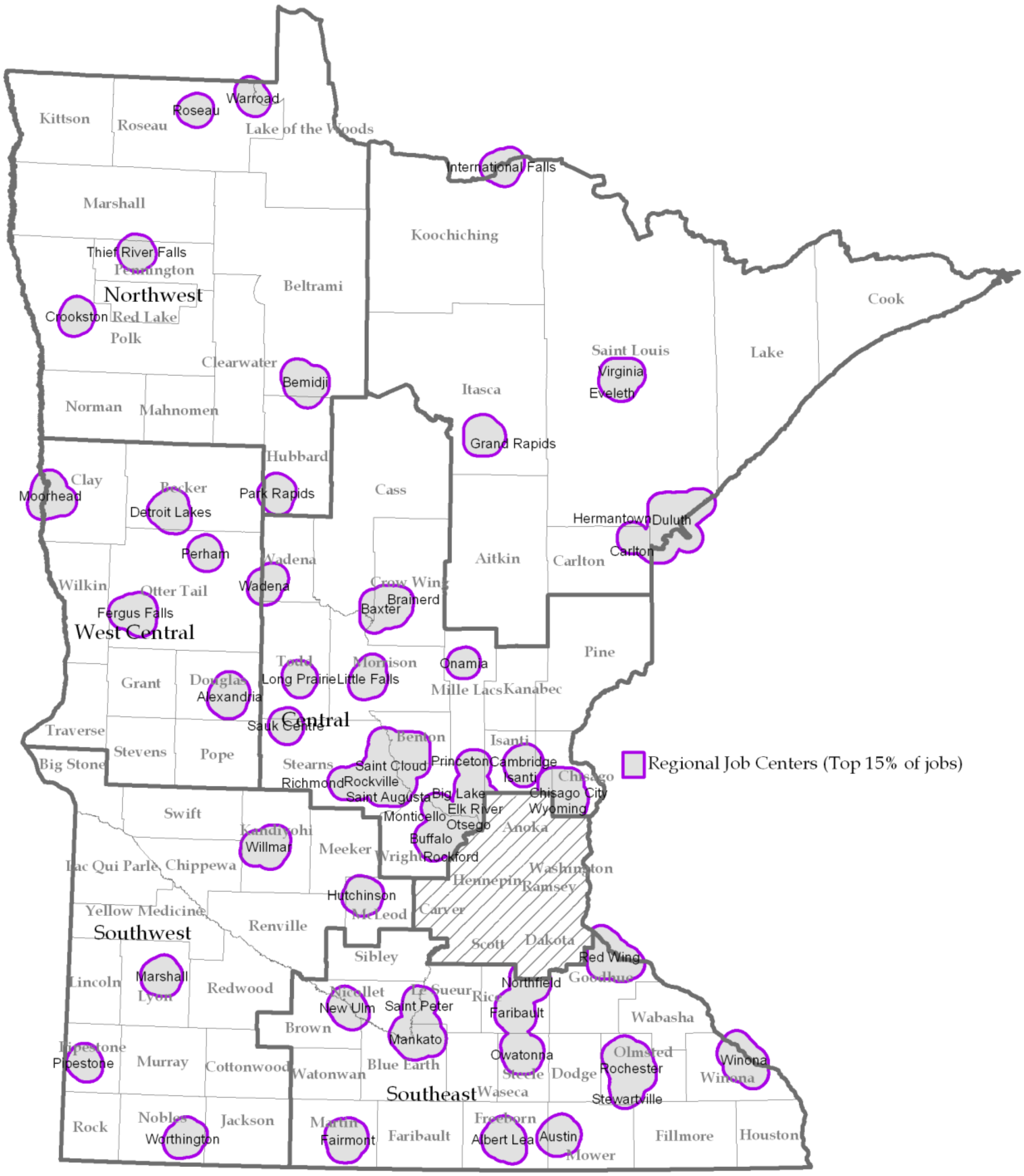
Figure 12: Comparing Each Region's Share of Assisted Households with Its Share of All Households and Jobs in the State



	Central	Northeast	Northwest	Southeast	Southwest	West Central	Metro
Share of Assisted HH/Units	8.4%	6.6%	5.4%	13.5%	8.2%	5.3%	52.5%
Share of Jobs	9.6%	5.4%	2.5%	12.8%	4.9%	3.2%	61.5%
Share of Households	13.1%	6.6%	3.3%	13.7%	5.5%	4.3%	53.6%

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]

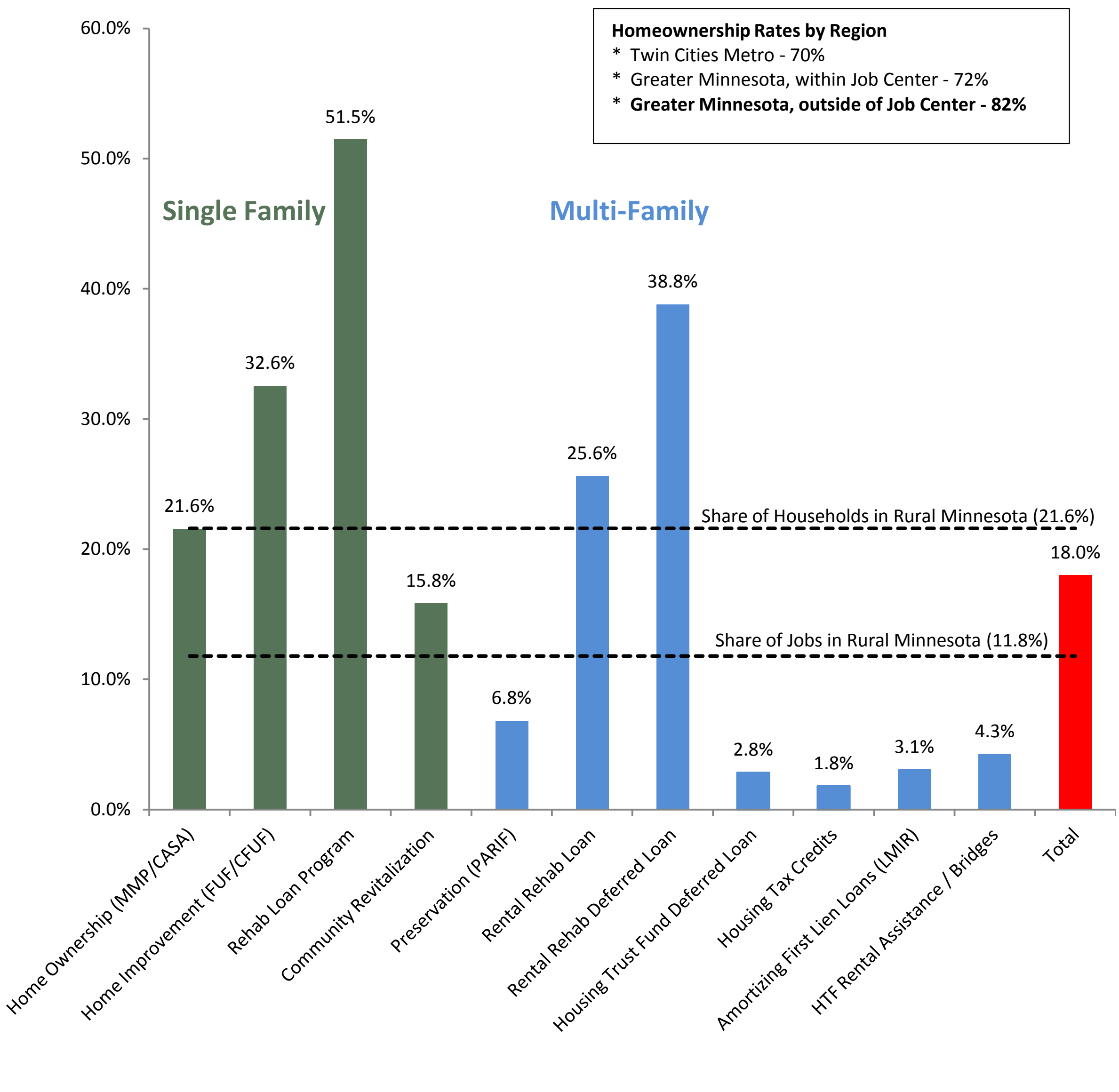
Figure 13: Job Centers in Greater Minnesota



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 Fund 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, $13 million in HOME funds will be used for preservation of rental housing, targeting federally assisted housing developments, which represents 63% 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 start assessing the state's housing needs for the next decade. This analysis will provide key information in framing future Affordable Housing Plans.

- **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.