# MEETINGS SCHEDULED FOR NOVEMBER

**Location:**

**Minnesota Housing**
400 Sibley Street, Suite 300
St. Paul, MN 55101

## THURSDAY, NOVEMBER 20, 2014

Regular Board Meeting
State Street Conference Room – First Floor
1:00 p.m.

**NOTE:** The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, November 20, 2014.

**Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.**

*The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.*

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Minnesota Housing Finance Agency

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*Equal Opportunity Housing and Equal Opportunity Employment*

**AGENDA**
**Minnesota Housing Finance Agency**
**Board Meeting**
Thursday, November 20, 2014
**1:00 p.m.**

State Street Conference Room – First Floor
400 Sibley Street, St. Paul, Minnesota 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of October 23, 2014
5. **Reports**
   **A. Chair**
   **B. Commissioner**
   **C. Committee**
6. **Consent Agenda**
   A. Bridges Rental Assistance Program, Revisions to Program Manual
7. **Action Items**
   A. Income Limits, Step Up Program
   B. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2014/2015 Series
   C. Resolution Relating to Multifamily Housing Revenue Bonds, Series 2014 (Minneapolis Preservation Portfolio Project); Authorizing the Issuance and Sale Thereof
   D. Resolution Relating to Multifamily Housing Revenue Bonds, Series 2014 (Gus Johnson Plaza Project); Authorizing the Issuance and Sale Thereof
   E. Resolution to Increase Short-term Debt Limit
8. **Discussion Items**
   A. 2014 Affordable Housing Plan and 2013-15 Strategic Plan: Final Progress Report
9. **Informational Items**
   A. Post-Sale Report, Homeownership Finance Bonds, 2014 Series D
   B. Report of Costs in Excess of Predictive Model
      - Mt. Airy Public Housing Four-Plex, St. Paul, D7668
   C. Schedule of 2015 Board Meetings
10. **Other Business**
11. **Adjournment**

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MINUTES

**MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING**
**Thursday, October 23, 2014**
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

**1. Call to Order.**

Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:01 p.m.

**2. Roll Call.**

**Members present:** Chair Ken Johnson, John DeCramer, George Garnett, Joe Johnson, Stephanie Klinzing, and Rebecca Otto. Ms. Gloria Bostrom was absent.

**Minnesota Housing staff present:** Erika Arms, Paula Beck, Nick Boettcher, Rose Carr, Chuck Commerford, Erin Coons, Jessica Deegan, Suzanne Dilla, Earl Erlendsson, Kay Finke, Anne Heitlinger, Holly Johnson, Karen Johnson, Margaret Kaplan, Bill Kapphahn, Kurt Keena, Kasey Kier, Julie LaSota, Diana Lund, Eric Mattson, Marty McCarthy, Shannon Myers, Jerry Narlock, Terri Parker, John Patterson, Tony Peleska, Luis Pereira, Caryn Polity, William Price, Paula Rindels, John Rocker, David Schluchter, Becky Schack, Kayla Schuchman, Nancy Slattsveen, Kay Smith, Barb Sporlein, Kim Stuart, Julie Tarlizzo, Mike Thomas, Susan Thompson, Will Thompson, Rob Tietz, Mary Tingerthal, Karin Todd, Katie Topinka, Ted Tulashie, Summer Watson, Jennifer Wille, Xia Yang, Amber Zumski-Finke.

**Others present:** Susan Thompson, Habitat for Humanity Minnesota; Therese Gales, Catholic Charities; Jessica Urbina, Lutheran Social Service; David White, Twin Cities Habitat for Humanity; Cory Hoeppner, RBC Capital Markets; Chip Halbach, Minnesota Housing Partnership; Liz Kuoppala, Minnesota Coalition for the Homeless; Tom O'Hern, Assistant Attorney General; Celeste Grant, Office of the State Auditor.

**3. Agenda Review**

Chair Johnson announced the following changes:

- The minutes for the September 25 meeting had been corrected to indicate that Ms. Grant did not attend the meeting and to include that Auditor Otto seconded the motion for approval of 6A, Amendments to the Lower Sioux Indian Community Proposal.
- A resolution had been corrected to reflect a Housing Infrastructure Bonds -EDHC award of $4,220,000 for Sunwood Village.
- The map of Single Family selections had been corrected to reflect the following: The City of Baudette had been removed from the map because there were no funded projects in the city; a portion of the City of Thief River Falls had been added; a portion of the City of Jackson that is part of the SWMHP Worthington & Jackson CLT proposal; a portion of the City of Proctor that is part of the One Roof acquisition / rehabilitation proposal had been added.

- The financial and regulatory leverage worksheet for the Robert Engstrom project indicated 20 units. The project has five units.
- The information for Three Rivers Community Action – Home Matters – Phase 3 had been replaced to reflect that the Greater Minnesota Housing Fund is not recommending funding for the project.
- The primary information for the Hutchinson Revitalization Project was omitted from the packet and replacement pages had been provided.

**4. Approval of the Minutes**

**A. Regular Meeting of September 25, 2014**

Mr. Joe Johnson moved approval of the minutes with the corrections noted in the agenda review. Ms. Klinzing seconded the motion. Motion carries 6-0.

**B. Special Meeting of October 7, 2014**

Auditor Otto moved approval of the minutes as written. Mr. Garnett seconded the motion. Motion carries 6-0.

**5. Reports**

**A. Chair**

There was no chair's report.

**B. Commissioner**

Commissioner Tingerthal opened her report by stating that the board would be taking a vote on a historic set of investments totaling a half billion dollars in housing and highlighted the investments from partner organizations. Commissioner Tingerthal invited members to join her at a press event following the meeting.

Commissioner Tingerthal reported that she and a number of staff spent the beginning of the week at the National Council of State Housing Agencies' annual meeting in Boston. At the meeting, the Agency was the recipient of three peer judged national awards. Awards were received for the emerging markets program, communications and the loss mitigation program. The Commissioner stated that many housing finance agency executive directors talked with her about the way our Agency's divisions work together for the success of our programs. Commissioner Tingerthal congratulated staff on the awards, noting that Minnesota Housing won more awards than any other housing finance agency.

Ms. Tingerthal shared that she had completed tribal consultation visits with White Earth, Leech Lake and Red Earth during October. The meetings resulted in good, candid conversation and that, although there are some things the tribes would like us to work on, there is a great deal of support for partnership that has been developed over the past 30 years. Tingerthal also visited Boise Forte, Grand Portage and Fond du Lac, where the discussion again was about the value of the partnership but also included items for improvement.

In early November, the Agency will begin conversations about budget planning for next year's legislative session. These conversations will include consultations with several agencies about the overall budgetary impact of implementation of the plan to prevent and end homelessness and a similar session for the implementation of the Olmstead plan. Commissioner Tingerthal noted that it is interesting to see the pieces of these budgets across many agencies that contribute toward meeting the goals.

Commissioner Tingerthal informed the board that the Agency had extended the processing of applications for homeowner relief from springtime flooding. There remain a few pending applications and overall there has been a small pool of applicants, but the resource is very important to those who need the funds.

Commissioner Tingerthal reported that the bond issue approved at the October 7 special meeting had a successful execution, with $40 million sold at full spread. Tingerthal added that a full report would be provided at the November meeting.

The following employee introductions were made:

- Kurt Keena introduced Earl Erlendsson, who has joined the asset management team. Mr. Erlendsson brings extensive experience in real estate and management.
- Shannon Myers introduced Holly Johnson. Ms. Johnson has joined the Multifamily division as an executive assistant and was previously employed as an office manager and a high school teacher.
- Julie Tarlizzo introduced Kaye Smith, who has joined the Agency as a closer in the Multifamily division. Ms. Smith has more than ten years of title experience and is pursuing her bachelor's degree.
- Kay Finke introduced Eddie Galimi, who has joined the Agency as a developer focused on the Multifamily workbook. Mr. Galimi brings 15 years of application development experience in the banking industry.

**C. Committee Reports**

There were no committee reports.

**6. Consent Agenda**

**A. Loan Modification, Twin Cities Community Land Bank**

**MOTION:** Mr. DeCramer moved approval of the modifications and adoption of Resolution No. MHFA 14-044. Mr. Joe Johnson seconded the motion. Motion carries 5-0, with Mr. Ken Johnson recusing himself.

**B. Modification, Economic Development and Housing Challenge (EDHC) Program - Clare Terrace, Robbinsdale, D7664**

**C. Commitment Extension, Housing Infrastructure Bond - Housing Trust Fund (HIB-HTF) Program - VA St. Cloud (formerly known as Commonbond VA St. Cloud), Saint Cloud D7602**

**MOTION:** Mr. DeCramer moved approval of the remainder of the consent agenda and adoption of Resolution Nos. MHFA 14-045 and 14-046. Mr. Joe Johnson seconded the motion. Motion carries 6-0.

**7. Action Items**

**A. 2014 Consolidated Request for Proposals**

Mr. Mike Haley and Ms. Barb Sporlein presented an overview of the annual consolidated request for proposals, stating that the RFP represents a large part of the Agency budget. They stated that it is a collaborative process both internally and with funding partners and is a unique process for a housing finance agency. They added that this year's selections were historic from a leverage standpoint and pointed out that the housing infrastructure bonds represented 10% of the Agency's overall bonding bill. They also stated that funding requests outnumbered available resources by three to one. Ms. Jessica Deegan joined the presentation and provided an overall activity summary.

**B. Single Family Selections, Community Homeownership Impact Fund**

Luis Pereira, Nancy Slattsveen and Nick Boettcher presented this request for approval, noting that the Agency received 45 proposals requesting just over $19 million and 35 proposals have been recommended for funding.

The group described the review process and shared application trends, which included community recovery, new construction in Greater Minnesota and acquisition/rehabilitation in the Twin Cities. Two housing and job growth / workforce housing proposals were received and more affordability gap and down payment assistance programs were recommended this year compared to the previous year.

Mr. Boettcher highlighted a proposal from the Hutchinson HRA which will use high school students on the construction team to complete a home for a low-income family and also shared the story of a woman who achieved stable housing for herself and her family through the purchase of a land trust home through the City of Lakes Community Land Trust.

In response to a question from Mr. DeCramer, Mr. Pereira stated that institutional work crews are used when possible, but there is a time lag in getting the initial commitment for the source of labor and then securing the crews. Commissioner Tingerthal added that developers work closely with the Department of Corrections to ensure that the crew resource will be available where it is needed, sharing that crews can be assembled only where there are empty beds within facilities located near projects and acknowledged that this is a unique logistical issue.

Mr. DeCramer stated he appreciated seeing the Hutchinson High School participation, stating he thought it was a marvelous program and it would be good to share with other communities. **MOTION:** Auditor Otto moved approval of the single family selections. Ms. Klinzing seconded the motion. Motion carries 6-0.

**C. Deferred Loans and Grants, Low and Moderate Income Rental (LMIR), Housing Tax Credit (HTC) Program, 2015 Round 1**

- **Approvals related to Multifamily selections**
  - **Resolution approving selections, authorizing the closing of loans, and granting waivers related to housing infrastructure bonds**

- **Resolution allocating federal low income housing credits and granting waivers related to federal low income housing tax credits.**
- **Resolution approving mortgage loan commitments under the Preservation Affordable Rental Investment Fund (PARIF) program.**
- **Adoption of a motion approving selections under the Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) programs.**

Ms. Kayla Schuchman presented for approval the Multifamily Consolidated RFP selections, characterizing them as historic both for resource availability and the number of units and proposals being recommended for funding. Ms. Schuchman added that applicants throughout the state demonstrated and documented housing needs and presented well thought-out and well-constructed proposals for meeting those needs.

Ms. Schuchman described the applications received, available resources and the selection process. Ms. Schuchman noted that all partner funding was subject to approval by the boards of those organizations. Ms. Schuchman also shared information with the board about trends seen in the applications and highlighted the following recommended proposals:

**Preservation**

- Skyline Tower predominately serves an immigrant population and has on-site services. Skyline Tower had refinanced with HUD in 2010 to obtain resources for window and plumbing stack replacements; however, the project was under-budgeted and there were insufficient resources to complete the rehabilitation. There was concern that the loan could be called in by HUD for technical default. The Interagency Stabilization Group had been working to find a solution and the property will receive housing infrastructure bond proceeds and gap funding to finish making the necessary repairs.
- Winhaven Apartments is located on a main street in Winona with easy access to amenities and transportation and serves an elderly and disabled population. Funding will be used to address critical health and safety needs and to modernize units and common areas.

**Supportive Housing**

- Rochester Youth and Family Housing will provide 55 units to homeless youth and families with children. This project helps to meet a significant need in Olmsted County, who will provide ongoing service funding.
- Higher Ground Saint Paul is the first phase of the Dorothy Day ReVisioning and is modeled after the Higher Ground project in Minneapolis that previously received funding from the Agency and has proven to be a successful model. The Saint Paul project will provide 135 supportive housing units for those who have experienced long-term homelessness and is anticipated to decrease health care costs of residents, which are paid by state and county.
- Prior Crossing, a project by Beacon Interfaith Housing Collaborative will provide 44 new construction units on University Avenue. The project will provide supportive services to formerly homeless youth and furthers Minnesota Housing's long-term homeless and critical needs strategic priorities.

**Workforce housing**

- Nettleton Apartments near downtown Duluth will provide needed affordable housing options for healthcare workers.
- Workforce housing has been identified as a as a pressing need in Owatonna and Northgate will provide 36 new construction units, with four units serving those who have experienced long-term homelessness.

**Family Housing**

- Sunwood in Ramsey is a new construction development with 47 units that is within walking distance of the Northstar Rail and will be designed to promote walking and biking to community amenities. The development is sited in a foreclosure priority area that was part of the failed Town Center master planned community. The area is experiencing a lot of development, including market rate multifamily, single family homes and medical service facilities.
- Morgan Square in Eagan will offer spacious units in an area with low vacancy rates and meets economic integration priorities.

Ms. Schuchman shared with the board information about the non-selected applications and stated that staff would contact each organization individually and offer technical assistance.

In response to a question from Mr. DeCramer, Ms. Schuchman stated that staff walks through the application scoring with non-selected applicants and offers suggestions for changes that would result in receiving more points. Staff also goes through areas in which the self-scoring and staff scoring are not in agreement.

Commissioner Tingerthal added that there often are relatively high profile projects where significant funding may come from municipalities or partners. In those circumstances, staff meets with all funders to talk about the complete project and funding requests and discuss feasibility issues. This honest exchange of information about the project and what makes it difficult to fund can lead us to a winning proposal the following year. Tingerthal added that it is not atypical for a project to come two or three times to reach the right mix of project elements and available funding needed for a project to come to the top of the list. Mr. DeCramer echoed that it can take several times and a lot of patience but it’s important that applicants not be disheartened by a first rejection.

Ms. Klinzing stated that she was glad to hear about the debriefings with applicants and appreciates that we give them the most assistance that we can to help move them forward. Ms. Klinzing stated her appreciation for the deep involvement in the projects by staff, adding that we do these projects because they help and are successful.

Chair Johnson thanked the staff for the hard work, stating they had produced a wonderful program result with very impressive numbers. **MOTION:** Members agreed to vote on all

Multifamily approvals in a single motion and Auditor Otto moved approval of the selections under the LMIR program and adoption of Resolution Nos. MHFA 14-047, 14-048 and 14-049. Mr. Garnett seconded the motion. Motion carries 6-0.

**8. Discussion Items**

**A. Homeless Management Information System (HMIS) Governance Structure**

Commissioner Tingerthal presented this item for discussion, stating that the purpose was to provide the board with the opportunity to learn background information about the Homeless Management Information System (HMIS). Commissioner Tingerthal provided background about HMIS, which is a system that has been in place since 2002 and is used by organizations that deliver homeless services throughout the state. Ms. Tingerthal added that federal funding from HUD requires a significant amount of reporting using software that makes up the backbone of the HMIS and that Wilder Research has been the primary keeper of that software since its implementation.

Software users began having conversations in 2011 about how to better organize the pieces that make up in HMIS. These conversations accelerated with the staffing of the Interagency Council on Homelessness in 2013. Users of the software have identified a need for better data that would allow organizations to make the case for how funds are utilized and for additional funding. HUD has provided technical assistance to provide a detailed roadmap for how to organize an HMIS that would work better for all users.

HUD requires that a “lead agency” be named. This lead agency contracts with HUD regarding the management of the HMIS structure in each state. A group of HMIS users engaged an attorney to assist in determining the best lead agency model for Minnesota. An interim planning team, governing group and subcommittee are working towards a recommendation and requested feedback from the Minnesota Housing board about their thoughts or concerns about the two models being investigated: a 501(c) 3 organization or an advisory task force. Commissioner Tingerthal provided the board with a summary of characteristics of both organization types and shared that the staffing needs for either would be similar.

Ms. Klinzing expressed a preference for the advisory task force. Auditor Otto requested information from the Agency counsel. Ms. Paula Beck, General Counsel, stated that either option would work, was authorized by statute and does not require any legislative approval.

Mr. DeCramer expressed a concern that the advisory task force may be more pressure on staff but acknowledged that either model would be a lot of work for Agency staff, who will need to effectively manage and monitor the relationships among all users. Mr. Johnson also expressed concerns about potential capacity issues in utilizing Agency staff.

Commissioner Tingerthal stated that she and Ms. Beck believe that either model could work effectively and that the policy setting, direction setting, and strategy would be developed very closely in cooperation with the individuals who are chosen to sit on the advisory task force. It is anticipated that the advisory task force will include substantial involvement of its members working closely with assigned staff.

Mr. Garnett stated that he was most concerned about selection of the statewide administrator and ensuring that the data collection and administration was adequate. Commissioner Tingerthal acknowledged his concern, stating that, at its heart, HMIS is an information system that requires integration with several state-run databases. Commissioner Tingerthal also stated that there is a data group in place as well that is working to make sure that the next iteration of the HMIS is one that integrates data more effectively.

Chair Johnson stated that, ultimately, Minnesota Housing would be partly responsible and expressed a preference for the advisory task force model.

Commissioner Tingerthal thanked the members and stated that a final recommendation with detailed information about duties, obligations and structure would be brought for decision making at a future meeting.

**9. Informational Items**

**A. Report of Complaints Received by Agency or Chief Risk Officer**

Information item; no report, discussion or action.

**10. Other Business**

**11. Adjournment.**

The meeting was adjourned at 2:32 p.m.

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Ken Johnson, Chair

**AGENDA ITEM:** 6.A.
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Bridges Rental Assistance Program, Revisions to Program Manual

**CONTACT:** Carrie Marsh, 651-215-6236
carrie.marsh@state.mn.us

Elaine Vollbrecht, 651-296-9953
Elaine.vollbrecht@state.mn.us

**REQUEST:**

☑ Approval ☐ Discussion ☐ Information

**TYPE(S)**:

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

**ACTION:**

☑ Motion ☐ Resolution ☐ No Action Required

**SUMMARY REQUEST:**
Staff requests approval of the revision to the definitions and waiting list priorities in the Bridges Rental Assistance Program guide.

**FISCAL IMPACT:**
No fiscal impact to the agency is anticipated.

**MEETING AGENCY PRIORITIES:**

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**

- Background
- Program Guide Changes (Definitions)
- Program Guide Changes (Waiting List)

**Background**

Bridges is a state-funded rental assistance program that serves low-income persons with a serious mental illness. The funds are administered by local housing agencies that make payments to landlords on behalf of the participating households. Currently, the Bridges program guide lists preferences for targeting the resources, but lacks a standard across the state. With the changes proposed in the attached amendment, staff proposes to standardize and update waiting list priorities for the program statewide, while still allowing administrators to select some local criteria. These revisions also better align the Bridges program with the goals of both the Minnesota Olmstead Plan and Minnesota's Plan to Prevent and End Homelessness.

Staff of the Department of Human Services Adult Mental Health Division (DHS-AMD) and Minnesota Housing worked in partnership to revise the Bridges waiting list priorities. The State Advisory Council on Mental Health Housing Committee and the National Alliance on Mental Illness of Minnesota Legislative Committee have provided feedback on the proposed revisions. Several Bridges grantees were also consulted.

The revisions will be effective for the 2015 Bridges and Bridges for Long Term Homeless Households Rental Assistance Program Guide and the 2015-2017 Bridges Rental Assistance funding application. Staff will provide implementation guidance to Bridges administrators.

**Definitions**

The following terms will be added to the definitions:

> **Segregated settings** "often have qualities of an institutional nature. Segregated settings include, but are not limited to: (1) congregate settings populated exclusively or primarily with individuals with disabilities; (2) congregate settings characterized by regimentation in daily activities, lack of privacy or autonomy, policies limiting visitors, or limits on individuals' ability to engage freely in community activities and to manage their own activities of daily living; or (3) settings that provide for daytime activities primarily with other individuals with disabilities."[1] Examples of institutions or segregated settings include a Regional Treatment Center, Community Behavioral Health Hospital, nursing homes, adult foster care group homes, or other hospital or residential treatment.
>
> **Imminent risk of homelessness** means persons who are:
>
> - Being evicted from a private dwelling unit, or
> - Being discharged from a hospital, correctional facility or other institution, or
> - Living in housing that has been condemned by housing officials and is no longer considered meant for human habitation and have no subsequent housing options identified,
> - And are lacking the resources or support networks needed to retain current housing or obtain temporary or permanent housing.

[1] Statement of the Department of Justice on Enforcement of the Integration Mandate of Title II of the Americans with Disabilities Act and Olmstead v. L.C. http://www.ada.gov/olmstead/q&a_olmstead.htm Page 95

## 4.09 Waiting List

The Bridges program is designed to assist persons with high needs through the provision of a housing subsidy and access to community mental health services. To achieve this goal, administrators must give priority to the following target populations, with highest priority given to persons residing in an institution or other segregated setting who will be homeless upon discharge.

1. Persons residing in an institution or other segregated setting who will be homeless upon discharge
2. Persons experiencing homelessness for one year or more, or multiple times in the last three years
3. People experiencing or at imminent risk of homelessness

The Housing Agency must submit their waiting list selection plan to Minnesota Housing for review and approval. The plan should be developed jointly by the Housing Agency and Local Mental Health Authority and Tribal governance, where applicable. Other objective criteria may be included in the waiting list selection plan, such as household income, date and time of application, or a preference for transition-aged youth or families with children.

~~If the number of applicants for Bridges/ELHIF subsidies exceeds the number of certificates available, a waiting list must be established. The Cooperative Agreement must specify:~~

- ~~Party responsible for the waiting list;~~
- ~~Procedure for maintaining the list; and~~
- ~~Procedure for making selections from the waiting list (using priorities identified in the agreement).~~

~~Bridges was designed and continues to support the following preferences:~~

1. ~~homeless persons (including long-term homeless),~~
2. ~~persons residing in a Regional Treatment Centers (RTC) or persons temporarily subsidized with state combined integrated funds,~~
3. ~~persons residing in Community-based residential treatment Facilities, or~~
4. ~~persons living in substandard and rent burdened units.~~

~~Other factors that may be considered in a waiting list include but are not limited to the following:~~

- ~~Date and time of application;~~
- ~~Level of participant income;~~
- ~~Residency in the operating area; and~~
- ~~Readiness of the applicant/participant for independent living.~~

~~The priority rating system developed by the Housing Agency and Local Mental Health Authority must be objective and must equitably rate potential participants. The Housing Agency and Local Mental Health Authority must~~ **~~submit their waiting list selection plan to Minnesota Housing for review and approval.~~**

**AGENDA ITEM:** 7.A.
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Income Limits, Step Up Program

**CONTACT:** Laura Bolstad, 651-296-6346, laura.bolstad@state.mn.us
Devon Pohlman, 651-296-8255, devon.pohlman@state.mn.us

**REQUEST:**

☑ Approval ☐ Discussion ☐ Information

**TYPE(S)**:

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

**ACTION:**

☑ Motion ☐ Resolution ☑ No Action Required

**SUMMARY REQUEST:**
Increase the income limits for the Step Up Program to 130% of the Area Median Income (AMI) as calculated for households of three or more people.

**FISCAL IMPACT:**
Staff estimates the recommended changes to the Step Up Program income limits would increase Step Up production. The secondary market/To be Announced (TBA) funding for Step Up is an unlimited resource and increased production expands contributions to Pool 3.

**MEETING AGENCY PRIORITIES:** Select all that apply

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- Background

**BACKGROUND:**
On December 18, 2012, Minnesota Housing launched the Step Up Program allowing the Agency to serve repeat homebuyers and refinance borrowers for the first time. In the 2014 Federal Fiscal Year, Step Up served 199 borrowers and represented 7% of the Agency's first mortgage production. Currently, Step Up uses the mortgage revenue bond (MRB) income limits based on 100% AMI for 1-2 person households and 115% AMI for 3+ person households. The Agency can set alternative income limits for Step Up because the program uses secondary market/TBA funding instead of mortgage revenue bonds. Statutes and administrative rules governing the Step Up program do not prescribe income limits. Minnesota Rule 4900.0070 authorizes the Commissioner to prepare and the Board to approve program guides setting forth the conditions upon which loans or grants shall be made. Because of this, the Agency may establish conditions for Step Up borrowers, including income limits, through Board approval of changes to the program manual.

| | **Current Step Up Income Limits** | | **Recommendation** |
|---|---|---|---|
| | 1-2 Person Household | 3+ Person Household | All household sizes |
| 11-County Metro | $82,900 | $95,335 | **$124,000** |
| Rochester MSA | $81,300 | $93,495 | **$124,000** |
| Balance of State | $73,900 | $84,985 | **$110,600** |

**RECOMMENDATION:**
Increasing the Step Up income limits from 100% AMI / 115% AMI to 130% AMI (calculated for a household of three or more people) provides more Minnesotans access to the advantages of Minnesota Housing's loan products, including Fannie Mae loan products only available to Housing Finance Agencies (HFAs). The Agency's HFA conventional products allow borrowers to reduce or eliminate mortgage insurance costs with a 3% downpayment. These products provide Minnesota Housing conventional borrowers a lower monthly housing payment with a smaller downpayment than would typically be required for non-HFA conventional borrowers.

This modest increase to the income limits positions Step Up more attractively in the market, given that the median repeat purchase borrower income in Minnesota of $95,900 is above the program's income limits. Currently, repeat buyers represent 93% of Step Up purchase loan production. The recommendation raises the Step Up income limits above the repeat buyer median income, thereby opening up the program to serve borrowers at, and slightly above, the statewide median. Lender input reveals that lenders perceive the Step Up income limits as too low for repeat borrowers. Increasing the income limits should improve lenders' perception of the program as a viable option for repeat buyers. Furthermore, staff has surveyed HFAs offering secondary market/TBA home mortgage funding, and has learned that the proposed limits are the norm for other HFAs.

Currently, 70% of all MLS listings are below the Step Up house price limits of $310,000 in the 11-county Metro Area and $265,000 in the balance of the state, indicating an adequate supply of eligible properties at current house price limits. Therefore, staff does not recommend changing home price limits at this time.

Monthly Payment Loan is the only Minnesota Housing downpayment and closing cost loan available to Step Up borrowers. Staff are not recommending changes to the Monthly Payment Loan income limits. As a result, under the proposed changes Monthly Payment Loan continues to assist only borrowers under the MRB income limits in order to appropriately target such assistance and preserve Pool 2 resources.

The projected impact of the recommended changes is an estimated 30% or greater increase in Step Up production over the next twelve months, depending on the increase in market share resulting from the change. Other factors impact production levels, including the interest rate environment, service release premiums paid to lenders, and the overall lender loan origination experience, making a precise estimate difficult. The projected increase in production supports the Affordable Housing Plan 2015 goal of $400 million in first mortgage production and an increased contribution to Pool 3.

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**AGENDA ITEM:** 7.B
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2014/2015 Series

**CONTACT:** Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

Bill Kapphahn, 651-215-5972
william.kapphahn@state.mn.us

**REQUEST:**

☑ Approval ☐ Discussion ☐ Information

**TYPE(S):**

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

**ACTION:**

☑ Motion ☑ Resolution ☐ No Action Required

**SUMMARY REQUEST:**
Agency staff is preparing to issue bonds to provide funds for the acquisition of newly originated mortgage-backed securities and to refund certain single family bond series originally issued in 2005. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of one or more bond issues on a not-to-exceed basis, the first of which will price and close in December 2014. A memo prepared by the Agency's financial advisor, CSG Advisors, describing the proposed transaction in more detail is attached.

**FISCAL IMPACT:**
The transaction is anticipated to result in the Agency earning the maximum allowable spread on the bonds.

**MEETING AGENCY PRIORITIES:**

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- Preliminary Official Statement (provided under separate cover)
- Proposed Approach Memo from CSG Advisors

**Minnesota Housing Finance Agency**
**Proposed Approach for Residential Housing Finance Bonds (RHFB)**
**November 5, 2014**

***OVERVIEW***

As described in our September 29th memo on Single Family Approaches, CSG Advisors has been working with staff and the underwriters on a range of tools that will allow Minnesota Housing *to continue to*:

1. Maintain its strong pipeline, including both federally insured and Fannie Mae-eligible loans,

2. Effectively hedge that pipeline, and

3. Balance current and future Income, by using bonds to finance at least a significant share of new production – thus providing a stable ongoing revenue stream for Agency operations and funding of Pool 3, as opposed to relying on fluctuations in up-front revenue from new production.

The finance team has utilized a variety of tools to meet all three objectives. Most recently over the last 6 months, Minnesota Housing has successfully sold three issues of single-family monthly pass-through bonds under the Housing Finance Bond indenture (HFB Series 2014 A, Series 2014 B/C and Series 2014 D) to finance over $110 million of new lending.

While the pass-through structure continues to provide an attractive and effective tool for financing new production, the Agency now has *an opportunity in the Residential Housing Finance Bond indenture (RHFB)* to further strengthen its balance sheet by refunding the higher costing 2005 bond series and finance approximately $50 million of new production at full spread and add to the Agency's zero participations (that can be used on subsequent transactions).

***CRITERIA***

As with all of the Agency's single-family financings, a key set of criteria are used to ensure benefit to the Agency.

1. **Avoid Major Interest Rate Risk.** The current hedging system is designed to protect the Agency against changes in interest rates from the time loans are reserved until they are either sold or permanently financed. Funding options that include bond financing should not significantly increase risk since reservations have been hedged. The Agency does have a limited amount of zero participations (about $8 million at the beginning of the year and now about $12 million) that it can utilize if interest rates were to rise.

2. **Continue High Ratings on all Minnesota Housing Single-Family Bonds.** New bond financing should be structured in such a way as to maintain the current high (AA or AAA ratings) on Minnesota Housing's existing single-family indentures, and avoid long-term stresses on indentures that could create future problems.

3. **Provide At Least a Comparable Expected Level of Return to Selling MBS.** In deciding whether

to sell MBS or include them in a bond financing, Minnesota Housing should look at the overall expected return at a range of prepayment speeds to determine that (a) bond financing can reasonably result in the same or better returns than (b) selling the same MBS and reinvesting cash in current available investments. Such comparison needs to take into account any gains or losses the Agency would have as a result of 'paring out' of hedges and putting the loans in a bond issue instead.

4. **Enhance Long-Term Financial Sustainability.** The mix of bond financing and sales of MBS should provide more balanced and financially sustainable results for Minnesota Housing over the long term, taking into account likely prepayment speeds and various interest rate markets.

***OPPORTUNITY IN RHFB***

**Refunding Potential**

RHFB has four issues of outstanding bonds which can now be optionally redeemed as of January 1, 2015; Series 2005 ABC, 2005 GHI, 2005 JKLM, and 2005 OP. They currently finance about $154 million of loans at interest rates slightly above 5%.

This optional redemption feature allows the Agency to issue refunding bonds at today's lower interest rates, and like the original bonds, will almost all be subject to Alternative Minimum Tax ("AMT"), with only a small amount that can be refunded as non-AMT.

They will be fixed rate bonds, rated Aa under the indenture, with an expected average interest cost of less than 3%. This savings will allow the Agency to include new production in the same bond issue and generate additional zero participations.

An unusual feature of this transaction is that it allows Minnesota Housing to terminate and replace approximately $72 million of interest rate swaps with fixed rate bonds. Almost half of the old bonds are variable rate with interest rate swaps which are at or close to the date on which they can be optionally terminated at par. The effective cost of funds to the Agency on the swaps plus liquidity and remarketing fees is about 4%. There is a cost of terminating two of the swaps before their July 1st par termination date of less than $1 million as of November 7th. The refunding thus allows the Agency to reduce its percentage of variable rate bonds and its need for future liquidity facilities.

**New Bonds for New Production**

Combining the refunding of approximately $150 million with approximately $50 million of new bonds, will allow the Agency to efficiently finance a portion of its current production. By being able to include both the old and new loans in the same transaction, the Agency can create an effective bond structure to help keep interest costs low. For example, about a third of the bond issue will be a Planned Amortization Class (PAC) bond, with an expected bond yield of about 2%.

**Use of Cash to Reduce Amount of Refunding Bonds**

Where there is cash in the series to be redeemed, those monies will be used first, thus reducing the amount of the refunding bonds to be issued.

In addition, the Agency may consider utilizing some of its other cash under the indenture in a way that would further reduce the amount of bonds to be sold.

***PROPOSED BOND ISSUE***

**Features**

To take advantage of this opportunity and lock in currently attractive rates, the Agency would:

1. Prepare a combined refunding and new money bond issue of up to approximately $200 million.
2. Seek Board approval at the November meeting.
3. Price the bond issue in early December, based on market conditions.
4. Maintain the interest rate hedges on the loans in the pipeline until the day when the bonds are priced.

**Measurable Objectives**

There are several key measurable objectives.

**Financial Savings** The refunding and new issue is projected to provide net present value benefits of well over 3% of the amount of bonds to be issued.

**Full Spread** The new loans will be financed at full spread.

**Creation of New Zero Participations** The combination of refunding and new money bonds is currently expected to produce about $8 million of new zero participations, adding to the Agency's existing approximate total of about $12 million. These zero participations would be used in the future to help the Agency achieve full spread on future transactions.

**Maintain Potential of RHFB Collateral to Be Used with Future Bond Issues** Earlier this year, the Agency issued two series of RHFB bonds that took advantage of loan collateral in the RHFB indenture that is not pledged to any particular bond issue. The Agency was able to finance new production with shorter term bonds by taking advantage of the cash flow provided by these existing loans. There is still approximately $10 million of this collateral in RHFB which can be used in conjunction with future issues. By designing the refunding so it keeps this collateral capacity available for subsequent bond issues, Minnesota Housing will be able to use this tool to help achieve full spread in the future.

**AGENDA ITEM: 7.C**
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Resolution Relating to Multifamily Housing Revenue bonds, Series 2014 (Minneapolis Preservation Portfolio Project); Authorizing the Issuance and Sale Thereof

**CONTACT:** Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

Paula Rindels, 651-296-2293
paula.rindels@state.mn.us

**REQUEST:**

☑ Approval ☐ Discussion ☐ Information

**TYPE(S):**

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

**ACTION:**

☑ Motion ☑ Resolution ☐ No Action Required

**SUMMARY REQUEST:**
The Minneapolis Preservation Portfolio Project in Minneapolis is being privately financed in part with an FHA insured loan, as well as other private and governmental funding sources. The Agency has also approved a deferred loan under the Agency's HOME Affordable Rental Preservation ("HARP") for this project. The developer has requested that Minnesota Housing act as a conduit issuer for a short term tax-exempt bond issue to provide financing for the project, and which also provides the project with 4% housing tax credits. The proceeds of an FHA insured loan, other non-Agency funding sources and the Agency's HOME HARP loan will be advanced to secure the repayment of the short-term bonds simultaneously with the use of the bond proceeds to pay project costs. Once construction is completed and the project is placed in service, the bonds will be paid off with these sources. The Agency is neither the construction nor permanent lender, and the bonds are a limited obligation of the Agency. If, for any reason the bonds cannot be repaid when they come due, the Agency has neither a legal or moral obligation to step in and pay the bonds. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of the bond issue on a not-to-exceed basis.

**FISCAL IMPACT:**
The Agency will collect an up-front fee of .5% of the par amount of the bond issue, and will receive a semi-annual fee of .05% (with a $2,500 minimum) for as long as the bonds are outstanding. In addition, the developer will pay the fees and expenses of the Agency's bond counsel and financial advisor.

**MEETING AGENCY PRIORITIES:**

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- Resolution and Preliminary Official Statement (provided under separate cover)

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**AGENDA ITEM: 7.D**
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Resolution Relating to Multifamily Housing Revenue bonds, Series 2014 (Gus Johnson Plaza Project); Authorizing the Issuance and Sale Thereof

**CONTACT:** Rob Tietz, 651-297-4009 rob.tietz@state.mn.us

Paula Rindels, 651-296-2293 paula.rindels@state.mn.us

**REQUEST:**

☑ Approval ☐ Discussion ☐ Information

**TYPE(S)**:

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

**ACTION:**

☐ Motion ☑ Resolution ☐ No Action Required

**SUMMARY REQUEST:**

Gus Johnson Tower in Mankato is being privately financed in part with an FHA insured loan, as well as other private and governmental funding sources. The Agency has also approved a deferred loan under the Agency's HOME Affordable Rental Preservation ("HARP") for this project. The developer has requested that Minnesota Housing act as a conduit issuer for a short term tax-exempt bond issue to provide financing for the project, and which also provides the project with 4% housing tax credits. The proceeds of an FHA insured loan, other non-Agency funding sources and the Agency's HOME HARP loan will be advanced to secure the repayment of the short-term bonds simultaneously with the use of the bond proceeds to pay project costs. Once construction is completed and the project is placed in service, the bonds will be paid off with these sources. The Agency is neither the construction nor permanent lender, and the bonds are a limited obligation of the Agency. If, for any reason the bonds cannot be repaid when they come due, the Agency has neither a legal or moral obligation to step in and pay the bonds. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of the bond issue on a not-to-exceed basis.

**FISCAL IMPACT:**

The Agency will collect an up-front fee of .5% of the par amount of the bond issue, and will receive a semi-annual fee of .05% (with a $2,500 minimum) for as long as the bonds are outstanding. In addition, the developer will pay the fees and expenses of the Agency's bond counsel and financial advisor.

**MEETING AGENCY PRIORITIES:**

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**

- Resolution and Preliminary Official Statement (provided under separate cover)

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**AGENDA ITEM:** 7.E
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Resolution to Increase Short-term Debt Limit

**CONTACT:** William Kapphahn, 651-215-5972
william.kapphahn@state.mn.us

Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

**REQUEST:**

☑ Approval ☑ Discussion ☐ Information

**TYPE(S):**

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

**ACTION:**

☑ Motion ☑ Resolution ☐ No Action Required

**SUMMARY REQUEST:**
Staff requests a temporary increase to the short-term debt limit to allow for uninterrupted Single Family mortgage loan production.

**FISCAL IMPACT:**
Short term borrowings with the Federal Home Loan Bank of Des Moines typically mature within 30 – 45 days and cost around 30 basis points. The Agency uses these borrowings to purchase our own MBS and warehouse them until we finance them permanently by issuing bonds. Given our current lending rates we are earning a spread between 3.15% and 4.40% during this warehouse period.

**MEETING AGENCY PRIORITIES:**

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- Background
- Section 1.06 of Debt Management Policy
- Resolution

Despite a slowly improving economy in the United States overall, the economies of China and Europe are slowing and the US job market has remained weak. Mortgage rates remain at historically low levels, and in fact, have fallen in recent weeks. For the year ending September 30, net mortgage purchases totaled over $400 million, exceeding the AHP by about $25 million. October 2014 reservations were the highest ever and totaled over $52 million.

On average we have been funding between $25 million and $40 million of mortgage loans per month since July 2014, and currently have approximately $70 million of MBS warehoused and hedged on our balance sheet. Approximately $40 million of this total was purchased with internal liquidity while $30 million was purchased by short-term borrowings from the Federal Home Loan Bank of Des Moines.

Given the expected timing of our next single family transaction in December, it is possible that we could exceed the short term debt limit of $75 million set forth in the Agency's Debt Management Policy. Staff requests a waiver to increase the short-term debt limit defined in Section 1.06 of the Agency's Debt Management Policy to $100 million through June 30, 2015. The relevant portion of the Policy is attached.

**Relevant portion of Policy 1 – Debt Management**

**1.06 Short-Term Financing Needs**

From time to time, depending on conditions in the bond market and the availability of liquid funds to the Agency, it may be necessary for the Agency to borrow money on a short-term basis from a bank or other financial institution or corporation to provide sufficient liquidity for Agency program and other operational needs. Staff is authorized to determine the need and feasibility of such short-term borrowing, in consultation with the Agency's financial advisor. The Chief Financial Officer is authorized to cause the Agency to enter into any such short-term borrowing arrangement upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, in a principal amount, at an interest rate and for a term (not exceeding 18 months) that the Chief Financial Officer determines is sufficient for the Agency's needs and financially feasible.

Any such borrowing may be secured by collateral comprising mortgage loans or other assets of the Agency to be specifically pledged thereto, but may not be secured by the general obligation of the Agency or be evidenced by a bond or note, unless approved by resolution of the Board. The Chief Financial Officer is authorized, upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, to cause the Agency to renew or extend any such short-term borrowing if circumstances then warrant. No more than $75,000,000 in principal amount of such borrowings may be outstanding at any one time, unless approved by resolution of the Board. The Agency shall count the outstanding principal amount of any such borrowings against the debt limit set forth in Minnesota Statutes, Section 462A.22, as amended.

Board Agenda Item: 7.E
Attachment: Resolution

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

**MHFA RESOLUTION NO. 14-**

**RESOLUTION GRANTING AUTHORITY TO INCREASE SHORT-TERM DEBT**

WHEREAS, single family mortgage loans and Mortgage Backed Securities (MBS) backed by such loans funded by Minnesota Housing Finance Agency (Agency) are frequently held by the Agency until the Agency issues bonds to finance them permanently or sells these assets in the securities markets ; and

WHEREAS, the Agency uses short term borrowing to fund these loans and MBS while they are being held; and

WHEREAS, Section 1.06 of Agency Board Policy 1 (Debt Management) pertaining to Short-Term Financing Needs states in its relevant part:

> "The Chief Financial Officer is authorized, upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, to cause the Agency to renew or extend any such short-term borrowing if circumstances then warrant. No more than $75,000,000 in principal amount of such borrowings may be outstanding at any one time, unless approved by resolution of the Board"; and

WHEREAS, current interest rates, loan volume and the timing of bond transactions may require short-term financing in excess of the stated limit.

**NOW THEREFORE, BE IT RESOLVED**:

THAT, the Board hereby temporarily increases the principal amount of short-term borrowing authority of the Agency's Chief Financial Officer under Agency Board Policy 1, Section 1.06 from $75,000,000 to $100,000,000 in aggregate principal amount of such borrowings; and

THAT, this temporary increase in authorization shall expire on June 30, 2015, unless additional authorization is obtained from the Board; and

THAT, all other provisions of Minnesota Housing Board Policy 1 (Debt Management) remain unchanged.

Adopted this 20th day of November, 2014

____________________________________
CHAIRMAN

**AGENDA ITEM:** 8.A
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** 2014 Affordable Housing Plan and 2013-15 Strategic Plan: Final Progress Report

**CONTACT:** John Patterson, 651-296-0763
john.patterson@state.mn.us

**REQUEST:**

☐ Approval ☑ Discussion ☐ Information

**TYPE(S):**

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

**ACTION:**

☐ Motion ☐ Resolution ☑ No Action Required

**SUMMARY REQUEST:**
Staff has attached for your review the fourth quarter progress report for the 2014 Affordable Housing Plan and the 2013-15 Strategic Plan.

**FISCAL IMPACT:**
None

**MEETING AGENCY PRIORITIES:**

☑ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- 2014 Affordable Housing Plan and 2013-15 Strategic Plan: Fourth Quarter Progress Report

# 2014 Affordable Housing Plan and 2013-15 Strategic Plan Fourth Quarter Progress Report

**(October 1, 2013 – September 30, 2014)**

**November 13, 2014**

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## Overview

2014 was a very strong year for Minnesota Housing. Tables 1-3 summarize the Agency's activities under the 2014 Affordable Housing Plan (AHP).

- Production for many programs exceeded our original forecasts.
- Of special note, production in both the home mortgage and multifamily rehabilitation areas started the year slow but finished very strong, with production exceeding the forecast.
- The only area of concern was Assessment Management, with the program reaching only 59% of the forecasted production. However, production in 2014 was significantly stronger than 2013, when we did not commit any Asset Management funds. In addition, under the 2015 AHP, we have reoriented this program to focus on shorter-term and immediate needs of the properties in our portfolio, and we will direct properties to the RFP process for longer-term and permanent needs.

## Changes to 2014 AHP Funding Levels

Table 4 at the end of this document lists the changes in the 2014 AHP funding levels that were implemented either by staff through delegated authority or by the Board through AHP amendments.

# Table 1: Production (Units with Funding Commitments), Programmatic, and Financial Indicators

## Quarter 4 of 2014 AHP (100% through AHP)

| | Original AHP Forecast | Actual To-Date | Portion of AHP Forecast Completed |
|---|---|---|---|
| **Single Family Production – Homes** | | | |
| 1. First Mortgages (Net Commitments) | 2,844 | 2,956 | 104% |
| 2. Other Opportunities | 287 | 270 | 94% |
| 3. Owner-Occupied Home Improvement/Rehabilitation | 1,196 | 1,523 | 127% |
| *4. Total* | *4,327* | *4,759* | *110%* |
| **Homebuyer Education, Counseling and Training - Households** | | | |
| 5. Education, Counseling, and Training (HECAT) | 12,567 | 11,236 | 89% |
| **Multifamily Production – Rental Units** | | | |
| 6. New Rental Construction | 544 | 828 | 152% |
| 7. Rental Rehabilitation | 1,974 | 2,744 | 139% |
| 8. Asset Management | 433 | 256 | 59% |
| *9. Total* | *2,951* | *3,828* | *130%* |
| **Rental Assistance and Operating Subsidies - Households** | | | |
| 10. Agency Funded Rental Assistance and Operating Subsidies* | 3,565 | 4,083 | 114% |
| 11. Section 8 and 236 Contracts | 31,485 | 31,347 | 100% |
| *12. Total* | *35,050* | *35,430* | *101%* |
| **Homeless Prevention** | | | |
| 13. Family Homeless Prevention and Assistance Program (FHPAP) & Housing Opportunities for Persons with AIDS (HOPWA) | 9,977 | 9,950 | 100% |
| **Build Sustainable Housing** | | | |
| 14. Percentage of New Construction or Rehabilitation Units that Meet Sustainable Design Criteria: | | | |
| a. Single Family | 50% | 40% | ** |
| b. Multifamily | 100% | 95% | ** |
| **Address Foreclosures** | | | |
| 15. Homes/Units Acquired | 415 | 561 | 135% |
| **Increase Emerging Market Homeownership** | | | |
| 16. Percentage of Mortgages Going to Households of Color or Hispanic Ethnicity | 22% | 26% | ** |
| **Earn Revenue to Sustain Agency and Fund Pool 3** | | | |
| 17. Return on Net Assets – State Fiscal Year 2014*** | $19.4 million | $28.7 million | ** |
| 18. Annualized Return on Net Assets (%) – State Fiscal Year 2014*** | 2.7% | 4.2% | ** |

* Multifamily rent assistance and operating subsidies are committed by the Board in July-September, at the end of an AHP. Thus, funds committed under the 2013 AHP (in July-September 2013) fund program activity in 2014 (October 1, 2013 to September 30, 2014). To reflect 2014 program activity for these programs, this table shows the households supported in 2014 with 2013 AHP funds. For all other programs, the table shows the households and housing units supported by funds provided in the 2014 AHP.

** Not Applicable.

*** Minnesota Housing does not forecast return on net assets. The figure in the forecast column is the return achieved in the previous state fiscal year (2013) and is provided as a point of reference.

## Table 2: Distribution of Resources

### Quarter 4 of 2014 AHP (100% through AHP)

| | AHP Forecast | Actual To-Date |
|---|---|---|
| 19. Percentage of Original Funds Committed Under the AHP | 95% | 102% |

## Table 3: Management of Loan Assets

### Quarter 4 of 2014 AHP (100% through AHP)

| | AHP Forecast | Actual To-Date |
|---|---|---|
| 20. Delinquency Rate for Combined Whole Loan & MBS Single-Family Portfolio (Feb. 28, 2014) | 3.11%* | 5.92%** |
| 21. Foreclosure Rate for Combined Whole Loan & MBS Single-Family Portfolio (Feb. 28, 2014) | 0.71%* | 1.19%** |
| 22. Percentage of Multifamily Developments with Amortizing Loan on Watch List | Under 10% | 8% |
| 23. Percentage of Outstanding Multifamily Loan Balances on Watch List | Under 10% | 4% |

* This is benchmark, rather than a forecast, and it is based on a Minnesota Housing analysis of all mortgages in the state as reported by the Mortgage Bankers Association. The benchmark applies to the March 31, 2014.
**The information presented is on an Agency-wide basis and includes both whole loan and MBS production as part of the loan portfolio. As such, the information is not directly relevant to the security of any bonds of the Agency and should not be relied upon for that purpose. The Agency publishes separate disclosure reports for each of its bond resolutions. Due to a change in USBank reporting, delinquency and foreclosure rates for MBS loans are unavailable for September 2014. The values shown for MBS and Whole reflect the portfolio status as of February 2014.

## Discussion of Items for Tables 1-3

- **Line 1:** After a slow start, lending volume for single-family first mortgages increased significantly during the summer. Because of the strong production, funding for the program was increased from $376 million to $416 million to ensure that we had adequate funding to get through the year.

- **Line 2:** Production for other housing opportunities progressed largely as expected. The Community Homeownership Impact Fund completed a successful selection process, achieving 70% of the forecast under this activity. The number of homes receiving funds was a less than expected because funding per home was about 20% higher than forecasted, which limited production with available funding. Activity through the Twin Cities Community Land Bank was higher than forecasted.

- **Line 3:** Production under in the owner-occupied home improvement/rehabilitation category was very strong, particularly for the Home Improvement Loan Program. Funding for this program was increased twice to accommodate the strong production. Most recently, staff increased funding from Pool 2 by $1.65 million (a 10% increase) using its delegated authority in September.

- **Line 4:** Overall, production in the Single Family – Homes category exceeded the forecast.

- **Line 5:** Production for the HECAT program was a little slower than forecasted (89% of forecast). With the subsiding foreclosure crisis, the demand for foreclosure counseling is diminishing.

- **Line 6**: Production of new rental construction units was very strong, with production exceeding the forecast. More funding went to new construction than we originally expected, and Minnesota Housing funding per unit was slightly lower than forecasted, allowing us to fund more units with the funds available.

- **Line 7:** Rehabilitation production also finished the year very strong - with a lot of commitments occurring in the HARP (HOME Affordable Rental Preservation) program late in the year. In addition, Minnesota Housing funding per unit was lower than forecasted, allowing us to fund more units with the funds available.

- **Line 8:** Asset management production was slower than expected achieving 59% of the forecast; however, the production was a significant improvement over the previous year.

- **Line 9:** In aggregate, Rental production exceeded the forecast.

- **Line 10:** With respect to Agency financed rental assistance and operating subsidies, production exceeded the forecast.

- **Line 11:** Section 8 and 236 contract administration is performing as expected.

- **Line 12:** Overall, rent assistance and operating subsidy production (federal and state) finished the year right on track.

- **Line 13:** Assistance provided under FHPAP and HOPWA is performing as expected.

- **Line 14:** The most Minnesota Housing's production meets sustainable design criteria.

  On the single-family side, all of the homes receiving funds under the Community Homeownership Impact Fund for new construction or rehabilitation meet the standard. However, the Home Improvement Loan Program is market driven, and borrowers are not required to follow sustainable design criteria in their home improvement efforts. Thus, the single-family percentage is less than 100%. Very strong Home Improvement Loan Production has reduced this percentage below the forecast of 50%.

  Typically, the multifamily percentage is very close to 100%. One project selected for funding in November 2013 (St. Anne's Senior Housing) is an acquisition deal with no rehabilitation and is exempt from the sustainable design criteria. Another development (Seaway) is a disaster relief project and only needs to meet limited scope sustainability, not the full Green Communities criteria.

- **Line 15:** The Agency has exceeded the forecasted level for acquiring foreclosed homes and rental units.

- **Line 16:** The Agency continues to meet its goal of lending to communities of color or Hispanic ethnicity. The Agency estimates that about one quarter of renter households that are income eligible for Minnesota Housing first mortgages are from a community of color or Hispanic ethnicity. The achievement of 26% indicates that the Agency has no disparities in its lending, which is a challenge in the current credit and regulatory environment.

- **Lines 17 and 18:** The return on net assets in state fiscal year 2014 was higher than in 2013.

- **Line 19:** The Agency committed more funds than the Board made available in the original 2014 AHP. During the year, several programs received additional funds to accommodate strong production.

- **Lines 20-21:** This information is out of date. Due to a change in US Bank reporting, delinquency and foreclosure rates for MBS loans are unavailable for September 2014. USBank had concerns about reporting to the Minnesota Housing the performance of loans that the Agency has sold on the secondary market. Staff from Minnesota Housing and USBank have worked out a solution. Going forward, this will allow Minnesota Housing to track and report the performance of all loans that were originated under one of its programs.

  The values shown for MBS and Whole reflect the portfolio status as of February 2014.

  The reported delinquency rate (5.91%) for single family first mortgages (whole loan and MBS) is higher than the market-wide benchmark for Minnesota (3.11%). However, this is an improvement from the December 2013 rate, which was 6.75%. The Agency's foreclosure rate is also higher than the benchmark. To get a better understanding of loan performance, staff has purchased data from CoreLogic that will allow the Agency to create separate performance benchmarks for the whole loan and MBS portfolios that closely match the loan characteristics of each portfolio. These benchmarks along with the traditional benchmark for the Mortgage Bankers Association will be included in next year's progress reports.

- **Line 22-23**: The Agency is meeting its goal for minimizing the number and share of loans on its multifamily watch list.

## Table 4 - Funding Changes since the Start of the 2014 AHP

| | Original 2014 AHP | Change in Estimated Un-committed Balances or Re-payments | Change in Federal Appro-priations | 10% Adjustment under Delegation Authority | Board Approved Amend-ments | Revised 2014 AHP | Funding Source |
|---|---|---|---|---|---|---|---|
| **Homebuyer and Home Refinance** | | | | | | | |
| Home Mortgage Loans | $376,000,000 | $0 | $0 | $0 | $40,000,000 | $416,000,000 | Bonds & Mortgage Capital |
| Deferred Payment Loans | $4,000,000 | $1,232,295 | $0 | $0 | $500,000 | $5,732,295 | State & Pool 3 |
| Monthly Payment Loans | $7,000,000 | $0 | $0 | $700,000 | $2,000,000 | $9,700,000 | Pool 2 |
| HOME HELP | $3,400,000 | $0 | $0 | $0 | -$600,000 | $2,800,000 | Federal |
| Homebuyer Education, Counseling & Training | $1,316,000 | $135,000 | $768,858 | $0 | $0 | $2,219,858 | State & Federal |
| Enhance Homeownership Capacity | $500,000 | $0 | $0 | $0 | $150,000 | $650,000 | Pool 3 |
| **Home Improvement** | | | | | | | |
| Home Improvement Loan Program | $13,830,000 | $0 | $0 | $1,650,000 | $3,075,000 | $18,555,000 | Pool 2 & Pool 3 |
| Rehabilitation Loan Program | $6,600,000 | $1,851,437 | $0 | $0 | $0 | $8,451,437 | State |
| **Rental Production** | | | | | | | |
| Low and Moderate Income Rental | $40,000,000 | $0 | $0 | $0 | $11,000,000 | $51,000,000 | Pool 2 & Bonds |
| Flexible Financing for Capital Costs | $4,500,000 | $0 | $0 | $0 | $800,000 | $5,300,000 | Pool 3 |
| Housing Tax Credits | $8,201,743 | $181,984 | $0 | $0 | $0 | $8,383,727 | Federal |
| HARP | $7,380,869 | $3,846,856 | $407,230 | $0 | $600,000 | $12,234,955 | Federal |
| PARIF | $12,722,070 | $219,347 | $0 | $0 | $0 | $12,941,417 | State |
| Publicly Owned-Housing Program | $58,281 | $139,258 | $0 | $0 | $0 | $197,539 | State |
| Rental Rehab Deferred Loan | $3,138,000 | $118,176 | $0 | $0 | $3,137,000 | $6,393,176 | State |
| Rental Rehab Loan | $0 | $0 | $0 | $0 | $200,000 | $200,000 | Pool 2 |
| **Resources to Prevent and End Homelessness** | | | | | | | |
| Housing Trust Fund | $3,935,134 | -$340,805 | $0 | $0 | $700,000 | $4,294,329 | State |
| Bridges | $400,000 | $258,221 | $0 | $0 | $0 | $658,221 | State |
| Family Homeless Prevention and Assist. | $0 | $100,245 | $0 | $0 | $0 | $100,245 | State |
| HOPWA | $139,245 | $0 | $8,334 | $0 | $0 | $147,579 | Federal |
| **Multiple Use Resources** | | | | | | | |
| Economic Development and Housing/Challenge | $17,327,907 | $1,405,479 | $0 | $0 | $0 | $18,733,386 | State |
| EDHC - Housing Infrastructure Bonds | $0 | $585,347 | $0 | $0 | $0 | $585,347 | State |
| Technical Assistance and Operating Support | $2,740,920 | $534,996 | $0 | $0 | $0 | $3,275,916 | State & Pool 3 |
| Strategic Priority Contingency Fund | $2,000,000 | $0 | $0 | $0 | -$1,525,000 | $475,000 | Pool 3 |
| **Other** | | | | | | | |
| HOME Admin. Expenses | $592,222 | $0 | $45,248 | $0 | $0 | $637,470 | Federal |
| Manufactured Home Relocation Trust Fund | $1,279,536 | -$65,842 | $0 | $0 | $0 | $1,213,694 | State |
| Disaster Relief Contingency | $1,719,357 | $144,448 | $0 | $0 | $0 | $1,863,805 | State |
| | **$518,781,284** | **$10,346,442** | **$1,229,670** | **$2,350,000** | **$60,037,000** | **$592,744,396** | |

Table 4 shows the funding changes to the 2014 AHP since it was first approved by the Board in September 2013.

- The first column lists the programs with a change.
- The next column shows the funding level originally approved under the 2014 AHP.
- The table then shows the changes in the estimated loan repayments or uncommitted balances that carried forward between the 2013 and 2014 AHPs. The original 2014 AHP was approved before the 2013 AHP finished, and the carry forward amounts were estimates, not final numbers. In addition, if loan repayments are lower or higher than expected, funding levels change. Staff made these changes to the AHP using authority delegated by the Board.
- The federal government did not finalize its 2014 appropriations until after the 2014 AHP started. Table 4 reflects the changes to the funding levels from the amount originally estimated. Staff made these changes to the AHP funding levels using authority delegated by the Board.
- The Board has delegated staff the authority to increase funding from Pool 2 or bond resources by 10%, if funds are needed and available. This column reflects changes made using this authority.
- The next column shows the funding changes that the Board made to the 2014 AHP through amendments.
- The last two columns show the revised funding levels and the source of the funding.

**AGENDA ITEM: 9.A**
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Post-Sale Report, Homeownership Finance Bonds, 2014 Series D

**CONTACT:** Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

Bill Kapphahn, 651-215-5972
william.kapphahn@state.mn.us

**REQUEST:**

☐ Approval ☐ Discussion ☑ Information

**TYPE(S)**:

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

**ACTION:**

☐ Motion ☐ Resolution ☑ No Action Required

**SUMMARY REQUEST:**
The Agency sold $39,934,464 of Homeownership Finance Bonds, 2014 Series D (Non-AMT) on October 14, 2014 which settled on October 28, 2014. Pursuant to the Debt Management Policy, the attached post-sale report is provided by the Agency's financial advisor, CSG Advisors. This is an information item and does not require approval.

**FISCAL IMPACT:**
None

**MEETING AGENCY PRIORITIES:**

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- Post-Sale Report

CSG | advisors



Via Email Delivery

**MEMORANDUM**

**Date:** **November 3, 2014**

**To:** **Minnesota Housing Finance Agency**

**From:** **Gene Slater, Tim Rittenhouse**

**Re:** **Post-Sale Report**
**$ 39,934,464 Homeownership Finance Bonds (HFB)**
**2014 Series D (Non-AMT)**

## BOND CRITERIA

The 2014 HFB Series D bonds were issued under a new Board authorization on October 7th of up to $150 million of additional single-family monthly pass-through bonds, based on four key criteria:

1. ***Avoid major interest rate risk*** by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues.

2. ***Maintain high ratings on all Minnesota Housing's single-family bonds***, with Series D rated Aaa.

3. ***Provide at least a comparable expected level of return to selling MBS,*** as measured at a reasonable assumed prepayment speed.

4. ***Enhance long-term financial sustainability*** through a mix of bond financing and sales of MBS to provide more balanced and financially sustainable results for Minnesota Housing**.**

## KEY RESULTS FOR MINNESOTA HOUSING

***Key Measurable Objectives.*** Minnesota Housing's objectives were to:

1. Achieve full spread while maintaining existing zero participations to finance future production.

2. Obtain a present value return for Minnesota Housing at least similar to selling the same new MBS in the secondary market, assuming a reasonable prepayment speed.

***Accomplishments.*** The results were successful:

- ***Full Spread.*** Minnesota Housing obtained an approximate full spread on the transaction of 1.10%, very close to the maximum IRS limit of 1.125%.

- ***Attractive Bond Yield.*** Bond yield was 2.875% versus a yield of approximately 3.4% on a traditionally structured tax-exempt issue.

- ***Return to Minnesota Housing.*** The relative benefits to Minnesota Housing from issuing the bonds depend on how long the mortgages remain outstanding, on average. For bond issues since 2010, the prepayment speed has averaged about 130% of the national standard PSA prepayment speed.
    - The net present value after all hedging costs is projected to be approximately 2.5% of the issue size at 100% prepayment speed, 1% at 150% prepayment speed and 0.4 % at 200% prepayment speed.
    - The breakeven speed on 2014 D compared to an MBS sale was approximately 165%, compared to 130% on Series B/C and 144% on Series A.
- ***Hedging.*** The loan production pipeline remained fully hedged until bonds were sold. Inclusion of the hedge economics into the bond yield calculation permits Minnesota Housing to earn the widest possible spread, while minimizing interest rate risk
- ***Continuing to Build Investor Demand.*** With investor orders of $68 million for Series D, the underwriters are continuing to re-establish the market and liquidity for future tax-exempt pass-through bond issues. Orders represented slightly less than 2 times the amount of bonds, compared to 3 times on the prior issues, with one prior investor dropping because the 2014 D rate was too low for them..

***Implications.*** Each of the three pass-through issues this year – Series A in June, Series B/C in August and Series D in October – demonstrate the renewed viability of the tax-exempt pass-through approach for enabling Minnesota Housing to finance production on-balance sheet.

Minnesota Housing also has refunding opportunities in RHFB together with additional-collateral not pledged to a bond issue. As a result, the next transaction is likely to be in RHFB and include some new money.

Together, these points indicate that Minnesota Housing has several ways to continue to use bonds to attractively finance its ongoing pipeline. Compared to other HFAs, Minnesota Housing is the national leader in finding ways to both fully hedge its pipeline while financing more than two-thirds of that pipeline on the Agency's balance sheet.

## TIMING AND STRUCTURE

***Timing.*** The issue was priced on Tuesday October 14th, with closing on October 28th.

***Sizing.*** The sizing was based on the pipeline of MBS being delivered in October as well as financing some MBS that had been purchased and retained in Pool 2. The overall size of about $40 million has proved attractive on each of Minnesota Housing's 2014 pass-through issues.

***Major Design Decisions.*** Key decisions by Minnesota Housing were to:

- Continue to include a 10-year par call at Minnesota Housing's option so that the Agency can potentially take advantage of interest rates in the future to either refund the bonds or sell the MBS and pay off the bonds.

- Include both Fannie Mae as well as Ginnie Mae MBS in the issue, with no percentage limit, which is important as the Fannie Mae share of production has increased partly due to higher FHA insurance premiums to borrowers. Series D financed 43% Fannie Mae's and 57% Ginnie Mae's.

***Rating.*** Bonds under the HFB indenture are rated Aaa by Moody's.

**BOND SALE RESULTS.** Key highlights are:

1. ***Investor Interest for Tax-Exempt Series.*** There was good institutional interest, with $68 million of orders.

2. ***Timing.*** The municipal market has outperformed treasury securities in 2014, with strong demand and very low supply providing the best start to the year for municipal bonds in 5 years. Although both the 10-year treasury and the 10-year MMD have dropped over 30 basis points in yield since Series A, including over 15 basis points since Series B/C, there has been very little change in GNMA and Fannie Mae yields (and therefore mortgage rates). These had only declined about 6 basis points since Series A, including 4 basis points since Series B/C. GNMAs and Fannie Mae's are the benchmarks to which pass-through buyers compared Minnesota's issue.

3. ***Successful Sale:*** The sale proved favorable with the bond yield on Series D in generally a similar relationship to GNMA yields as on Series A and Series B.

***Comparison to GNMA Yields:*** Investors are comparing the pass-through issues to current coupon GNMAs. Minnesota's transactions have generally been about 20 basis points lower. Compared to GNMAs, Minnesota bonds provide much less liquidity in the global markets but do offer tax-exemption.

| | **2014 Series A Tax-Exempt** | **2014 Series B Tax-Exempt Series** | **2014 Series C Tax-Exempt** |
|---|---|---|---|
| | June 2014 | August 2014 | October 2014 |
| Minnesota Housing bond yield | **3.0%** | **2.95%** | **2.875%** |
| Yield on GNMA 4.0 current coupon, at 150% prepayment speed | 3.18% | 3.16% | 3.12% |
| Minnesota Housing compared to GNMA yield | **18 basis points lower** | **21 basis points lower** | **24.5 basis points lower** |

***Comparable Single-Family Pass-Through Bond Transactions:*** Other than Minnesota's own prior pass-through issues, there have been very few single-family pass-through bond issues sold this year. The only other tax-exempt new money transactions in the last six months have been very small sales by Escambia County, Florida and Pinellas County, Florida-- both of which Minnesota outperformed. Other State HFAs have used taxable pass-through bonds for refundings, with much shorter average lives.

All in all, Series D achieved a very good result.

## UNDERWRITING

***Underwriters.*** RBC was the senior manager; regular co-managers were Piper Jaffray and Wells Fargo. Since monthly pass-through bonds are sold only to institutional investors, there was no selling group or rotating co-manager.

***Underwriter Fees.*** Management fees were appropriate, consistent with industry standards and in the same range as fees reported for other housing issues of similar size and structure.

**********************************************************************

**ISSUE DETAILS**

***Key Dates:*** 2014 D Bond Pricing for HFB Indenture

| | |
|---|---|
| Institutional Order Period: | Tuesday, October 14, 2014 |
| Closing Date: | Tuesday, October 28, 2014 |

***Economic Calendar.*** Economic signals have recently been moderately positive with respect to economic growth, with unemployment dipping beneath 6%. The Fed indicated it planned to end its purchase of mortgage securities by the end of October and is currently expected to begin raising rates in the middle of next year (depending on economic conditions).

In the days leading up to the sale, the major economic news was from overseas, with weaker results from Germany pushing down Treasury bond rates. Together with slowing in Chinese economic growth and the conflict with ISIS, worries overseas have led to greater demand for Treasuries.

***Treasuries.*** The 10-year Treasury dropped in yield from 2.52% on September 30th to 2.31% at the end of Friday Oct. 10th the last day the Treasury market was open before pricing. This is a drop of about 20 basis points and indicates market concerns about overseas economic growth and flight to quality. Rates remain far below the 3% at the beginning of the year and defy expectations that rates would rise as the Federal Reserve tapered bond purchases and the economy slowly improved.

When Series A was priced on June 10th, the 10-year Treasury yield was 2.64% (after rising dramatically from 2.44% on May 28th). When B/C was priced, the 10-year Treasury bond was 2.46%.

***Municipals.*** Munis also rallied in early October and slightly outperformed Treasuries, especially at the longer end of the yield curve.

What is striking is that even at such low absolute yields, the market has been especially strong with continued buyer appetite, a large amount of redemptions, and limited new supply for the demand. Overall factors include:

- Volume of new issuance continues at record low levels, although visible supply has increased from summer lows to about $9 billion.
- Despite the absolute low level of rates, there has been ongoing and renewed retail and institutional interest.
- Credit spreads have continued to remain relatively wide, especially compared to the low absolute level of rates, with approximately 65 basis point differentials between the AAA G.O. MMD index and A-rated G.O.s, both at 10 years and at 30 years.

| • Issue | Date | 10-Year Treasury | 10-Year MMD | MMD/ Treasury Ratio | 30-Year Treasury | 30-Year MMD | MMD/ Treasury Ratio |
|---|---|---|---|---|---|---|---|
| 2013 A* | 1/9/13 | 1.88% | 1.69% | 89.9% | 3.06% | 2.80% | 91.5% |
| 2013 B* | 4/8/13 | 1.76% | 1.72% | 97.7% | 2.91% | 2.94% | 101.0% |
| *2013 RHFB A/B/C*** | 5/14/13 | 1.96% | 1.81% | 92.3% | 3.17% | 2.93% | 92.4% |
| 2013 C | 6/17/13 | 2.19% | 2.23% | 101.8% | 3.35% | 3.50% | 104.4% |
| *2014 RHFB A*** | 2/11/14 | 2.75% | 2.52% | 91.6% | 3.69% | 3.87% | 104.9% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| *2014 RHFB B*** | 4/16/14 | 2.65% | 2.30% | 86.8% | 3.45% | 3.51% | 101.7% |
| 2014 A* | 6/10/14 | 2.64% | 2.33% | 88.3% | 3.47% | 3.36% | 98.0% |
| 2014 B / C* | 8/7/14 | 2.46% | 2.16% | 87.0% | 3.27% | 3.21% | 98.2% |
| **2014 D** | **10/10/14 (latest before pricing)** | **2.31%** | **1.99%** | **86.1%** | **3.03%** | **2.91%** | **96.0%** |
| **Change from Series B/C** | | **-15 bp** | **- 17 bp** | **- 0.9%** | **-24 bp** | **- 30 bp** | **- 2.2%** |

* Homeownership Finance Revenue Bonds (HFB)

** Residential Housing Finance Bonds (RHFB)

**Municipal Calendar.** The Minnesota competitive sale calendar was light for the week of pricing with $11 million in local G.O. issues scheduled for bids. The Minnesota negotiated calendar included a $42 million St. Cloud health care issue and a Woodbury Housing and Redevelopment Authority $54.7 million issue for a non-profit senior housing facility.

The most recent single-family issue prior to Minnesota Housing's was a SONYMA issue with $27.9 million of non-AMT (as well as $88.8 million AMT) bonds on Tuesday, October 7th. The 30-year non-AMT bonds were sold at 3.85%, indicating how even traditionally structured housing bonds are achieving lower yields. None of these Minnesota or other housing issues competed for the same buyers as Series D.

***MBS Yields.*** MBS yields are very relevant because investors can choose between purchasing MBS directly or purchasing HFA bonds backed by MBS. In effect, bond purchasers look as much to the spread between HFA bonds and MBS as they do to the spread between HFA bonds and treasuries.

As can be seen below, GNMA yields have dropped by 47 basis points since June compared to a 33 basis point drop in 10-year treasury yields over the same period. Thus, GNMAs are trading at a much wider spread to both the 10-year Treasury and the 10-year MMD Index than they were during Minnesota Housing's prior sales. Absolute yields are slightly lower on Fannie Mae's and similar to what they were on GNMAs. The yields have been computed at the 150% prepayment speed that is assumed for breakeven in the use of bonds compared to outright sales of the MBS.

| Type | Delivery | Coupon | Measure | June 17, 2013 | Feb. 11, 2014 | April 16, 2014 | June 10, 2014 | August 12, 2014 | Oct. 10, 2014 |
|---|---|---|---|---|---|---|---|---|---|
| GNMA | Current | 4.0 | Price | 106.31 | 105.98 | 105.80 | 106.23 | 106.38 | 106.70 |
| | | | Yield* | 3.17% | 3.22% | 3.24% | **3.18%** | **3.16%** | **3.12%** |
| FNMA | Current | 4.5 | Price | 106.91 | 107.44 | 107.06 | 107.72 | 107.73 | 108.33 |
| | | | Yield* | 3.57% | 3.50% | 3.55% | **3.47%** | **3.46%** | **3.39%** |
| 10-year Treasury | n/a | n/a | Yield | 2.19% | 2.75% | 2.65% | 2.64% | 2.46% | 2.31% |
| GNMA to 10 year Treasury | n/a | n/a | Yield* | 144.75% | 117.09% | 122.26% | **120.45%** | **128.58%** | **135.06%** |
| GNMA to 10 year MMD | n/a | n/a | Yield* | 142.15% | 127.78% | 140.87% | **136.48%** | **146.44%** | **155.19%** |

*at 150% PSA

**PASS-THROUGH SINGLE FAMILY HOUSING BOND PRICING COMPARABLES, 2014 TO PRESENT**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Pricing Date | 10/14/14 | 9/10/14 | 8/19/14 | 8/12/14 | 6/12/14 | 6/11/14 | 6/10/14 | 4/23/14 |
| Amount | $39,934,464 | A1: $12,300,000; A2: $5,990,307 | $4,335,000 | B: $18,868,172; C: $13,663,159 | $12,646,801 | $28,666,756 | $38,526,925 | $21,070,000 |
| Issuer | Minnesota HFA | Pinellas Co., Florida HFA | Escambia Co., Florida HFA | Minnesota HFA | New Mexico MFA | Indiana HCD | Minnesota HFA | Florida HFC |
| Series | 2014 Series D | 2014 Series A1,A2 | Series 2014B | 2014 Series B,C | 2014 Series B | 2014 Series 1 | 2014 Series A | 2014 Series A |
| Program | Single Family / Negotiated | Single Family / Negotiated | Single Family / Negotiated | Single Family / Negotiated | Single Family / Negotiated | Single Family / Negotiated | Single Family / Negotiated | Single Family / Negotiated |
| Rating(s) | Aaa / - / - | Aaa / - / - | Aaa / - / - | Aaa / - / - | - / AA+ / - | - / - / AAA | Aaa / - / - | Aaa / - / - |
| Tax Status | Tax Exempt, Non-AMT | A1: TE Non-AMT; A2: Taxable | Tax Exempt, Non-AMT | B: TE Non-AMT; C: Taxable | Taxable | Taxable | Tax Exempt, Non-AMT | Taxable |
| Use of Funds | New Money | A1: New Money; A2: Refunding | New Money | New Money | Refunding | Refunding | New Money | Refunding |
| Maturity | 2044 | A1: 2044; A2: 2036 | 2044 | 2044 | 2035 | 2038 | 2044 | 2036 |
| Price | 100.000 | A1: 102; A2: 100 | 100.000 | 100.000 | 100.000 | 104.250 | 100.000 | 100.000 |
| Coupon/Yield | 2.875 | A1: 3.18%; A2: 2.9% | 3.125 | B: 2.950; C: 3.250 | 2.750 | 3.090 | 3.000 | 3.000 |

| Indicator | Indicative Yield 10/10/14 | Spread | Weighted Average Life (yrs) | Indicative Yield 9/10/14 | Spread | Weighted Average Life (yrs) | Indicative Yield 8/19/14 | Spread | Weighted Average Life (yrs) | Indicative Yield 8/12/14 | Spread | Weighted Average Life (yrs) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10-Year US Treasury | 2.310 | +57 | | 2.540 | +64/+36 | | 2.400 | +73 | | 2.460 | +49/+79 | |
| GNMA I @ 100% PSA | 2.782 | +9 | | 2.978 | +20/-8 | | 2.906 | +22 | | 2.945 | +0/+30 | |
| GNMA I @ Dlr Forecast | 2.699 | +18 | | 2.963 | +22/-6 | | 2.866 | +26 | | 2.918 | +3/+33 | |
| 10-Year MMD | 1.990 | +89 | | 2.230 | +95/+67 | | 2.120 | +101 | | 2.160 | +79/+109 | |
| 100% PSA | | | 10.8 | | | A1: 10.4 | | | 10.7 | | | - |
| 150% PSA | | | 8.7 | | | A1: 8.4 | | | 8.7 | | | - |
| 200% PSA | | | 7.3 | | | A1: 7.0 | | | 7.2 | | | - |
| 300% PSA | | | 5.5 | | | A1: 5.2 | | | 5.4 | | | - |
| Notes | | | | A1 is 3.40% coupon at 102.00 price to yield 3.18% assuming 100% PSA | | | | | | | | |
| Sr Manager | RBC Capital Markets | | | RBC Capital Markets | | | RBC Capital Markets | | | RBC Capital Markets | | |

| Indicator | Indicative Yield 6/12/14 | Spread | Weighted Average Life (yrs) | Indicative Yield 6/11/14 | Spread | Weighted Average Life (yrs) | Indicative Yield 6/10/14 | Spread | Weighted Average Life (yrs) | Indicative Yield 4/23/14 | Spread | Weighted Average Life (yrs) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10-Year US Treasury | 2.580 | +17 | | 2.650 | +44 | | 2.640 | +36 | | 2.700 | +30 | |
| GNMA I @ 100% PSA | 2.998 | -25 | | 3.039 | +5 | | 3.043 | -4 | | 3.162 | -16 | |
| GNMA I @ Dlr Forecast | 2.991 | -24 | | 3.047 | +4 | | 3.052 | -5 | | 3.212 | -21 | |
| 10-Year MMD | 2.330 | +42 | | 2.330 | +76 | | 2.330 | +67 | | 2.280 | +72 | |
| 100% PSA | | | 7.9 | | | - | | | 10.8 | | | 6.2 |
| 150% PSA | | | 6.6 | | | - | | | 8.8 | | | 5.4 |
| 200% PSA | | | 5.6 | | | - | | | 7.3 | | | 4.7 |
| 300% PSA | | | 4.2 | | | - | | | 5.5 | | | 3.6 |
| Notes | | | | 4.05% coupon at 104.25 price to yield 3.09% assuming historic prepayment speed | | | | | | | | |
| Sr Manager | RBC Capital Markets | | | JP Morgan | | | RBC Capital Markets | | | RBC Capital Markets | | |

**AGENDA ITEM:** 9.B
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Report of Costs in Excess of Predictive Model
- Mt. Airy Public Housing Four-Plex, St. Paul, D7668

**CONTACT:** Summer Watson, 651-296-9790
summer.watson@state.mn.us

**REQUEST:**

☐ Approval ☐ Discussion ☑ Information

**TYPE(S):**

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

**ACTION:** ☐ Motion ☐ Resolution ☑ No Action Required

**SUMMARY REQUEST:**
Agency staff has completed the underwriting and technical review of the proposed development. Staff analyzes all proposals on a total and per unit cost basis using a Predictive Cost Model developed by Minnesota Housing research staff as one way to identify proposals having costs higher than might be expected. Agency staff works with applicants to understand and mitigate high costs. In 2007, the board requested that staff provide rationale for all recommended proposals that exceed the predictive model estimate greater than 25%. While the development now exceeds this threshold as described below, Minnesota Housing's funding amount has not changed. This item is informational only and does not require Board action.

**FISCAL IMPACT:**
In the 2014 amended Affordable Housing Plan (AHP), the Board allocated $51 million in new activity for the LMIR program which includes $21 million from the Housing Investment Fund (Pool 2) and $30 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. Funding for this loan falls within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate $142,928 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

**MEETING AGENCY PRIORITIES:**

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
Predictive Cost Model Rationale

**Mt. Airy Public Housing Four-Plex, Saint Paul** **D7668/M16632**
4 Units - New Construction
RFP Funding Award: $ 360,000
RFP Award per Unit: $ 90,000

| *TDC* | *TDC Per Unit* | *Amount Per Unit above Predicted Amount* | *Predictive Model Amount* | *25% over Predictive Model* | *TDC per Unit as % of Predictive Model* |
|---|---|---|---|---|---|
| $943,461 | $235,865 | $47,499 | $188,366 | $235,458 | 125.22% |

Mt. Airy Public Housing Four-Plex is part of a St. Paul PHA public housing site and is a townhome development with shared surface parking. The proposed TDC per unit is 25.22% above the predictive model estimate. Contributing to the costs are HUD requirements and the specification that the building's plan and envelope match the existing units on the public housing site, including design elements such as basements and more durable products. Ninety-four percent of the TDC is attributable to hard construction costs and 62% is funded by a HUD Capital Funds Program (CFP) grant and HUD pre-development grant. The PHA has increased the allocation of HUD CFP funds to cover the increase in TDC.

An increase in the TDC is solely due to the increase in hard construction costs and contingency. Since selection, the cost of construction $676,397 ($195,342 per unit) has increased (25%) to $845,500 ($211,375 per unit). Majority of the higher than predicted costs are attributable to:

- Elements of design – The units include a finished, usable basement. Saint Paul PHA generally serves renters with larger families and the design elements are consistent with the characteristics of the other 298 units in the development.
- HUD requirements – HUD mandates that HUD prevailing wages be paid on all work that utilizes HUD funding. The Department of Labor General Wage Decision is a higher wage rate which results in increased hard construction costs.
- Type of products – In order to deliver a longer term 30-year product the PHA uses more durable, sustainable products in keeping with adjacent existing buildings.
- Increase in construction costs – Final bid results indicate that there has been a significant growth in construction material and labor costs over the last 12 months. Bids for this project are only slightly lower than other previous projects despite the fact that there are a smaller number of units.

**AGENDA ITEM:** 9.C
**MINNESOTA HOUSING BOARD MEETING**
**November 20, 2014**

**ITEM:** Schedule of 2015 Board Meetings

**CONTACT:** Mary Tingerthal, 651.296.5738, mary.tingerthal@state.mn.us — Becky Schack, 651.296.2172, becky.schack@state.mn.us

**REQUEST:**

☐ Approval ☐ Discussion ☑ Information

**TYPE(S)**:

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

**ACTION:**

☐ Motion ☐ Resolution ☑ No Action Required

**SUMMARY REQUEST:**
The schedule of meetings for 2015 is attached. Committee meetings will be scheduled as needed. Members will be notified of the dates and times of these meetings as they are scheduled.

**FISCAL IMPACT:**
None.

**MEETING AGENCY PRIORITIES:**

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

**ATTACHMENT(S):**
- Schedule of 2015 Board Meetings

All meetings are on Thursdays and will begin at 1:00 p.m. unless otherwise noted. Committee meetings will be scheduled as needed. Members will be notified of the dates and times of these meetings as they are scheduled.

Meeting dates are subject to change. All meeting dates and materials are available on www.mnhousing.gov (about us -> board meetings).

**2015 Schedule of Minnesota Housing Board Meetings**

January 22

February 26

March 26

April 23

May 28

June 25

July 23

August 27

September 24

October 22 (*morning meeting for RFP selections*)

November 19 *(one week early due to Thanksgiving Holiday)*

December 17 *(one week early due to Christmas Holiday)*