

Address Gaps in your Community: *Leverage Multiple Home Improvement Programs*

USDA RD

DEED Small Cities

Greater MN Housing Fund

Minnesota Housing

April 16, 2015



Agenda

- Define the problem: Home improvement gaps and barriers in your community
- Program Overview
 - Competitive Programs – Requests for Proposal
 - Lender-driven Programs
- Four “Community Scenarios”
- Your questions

Partner Organizations



Desired End State

There is a spectrum of home improvement programs in my community serving borrowers across a range of situations:

- Income
- Credit score
- Affordability (monthly payment or not – i.e., deferred loan vs. grant)
- Secured vs. unsecured options



The Issue:

*Real and perceived program gaps
and barriers for borrowers*

Home Improvement Gaps and Barriers

Household

- Income limits
- Low credit scores
- Affordability of monthly payment
- Equity

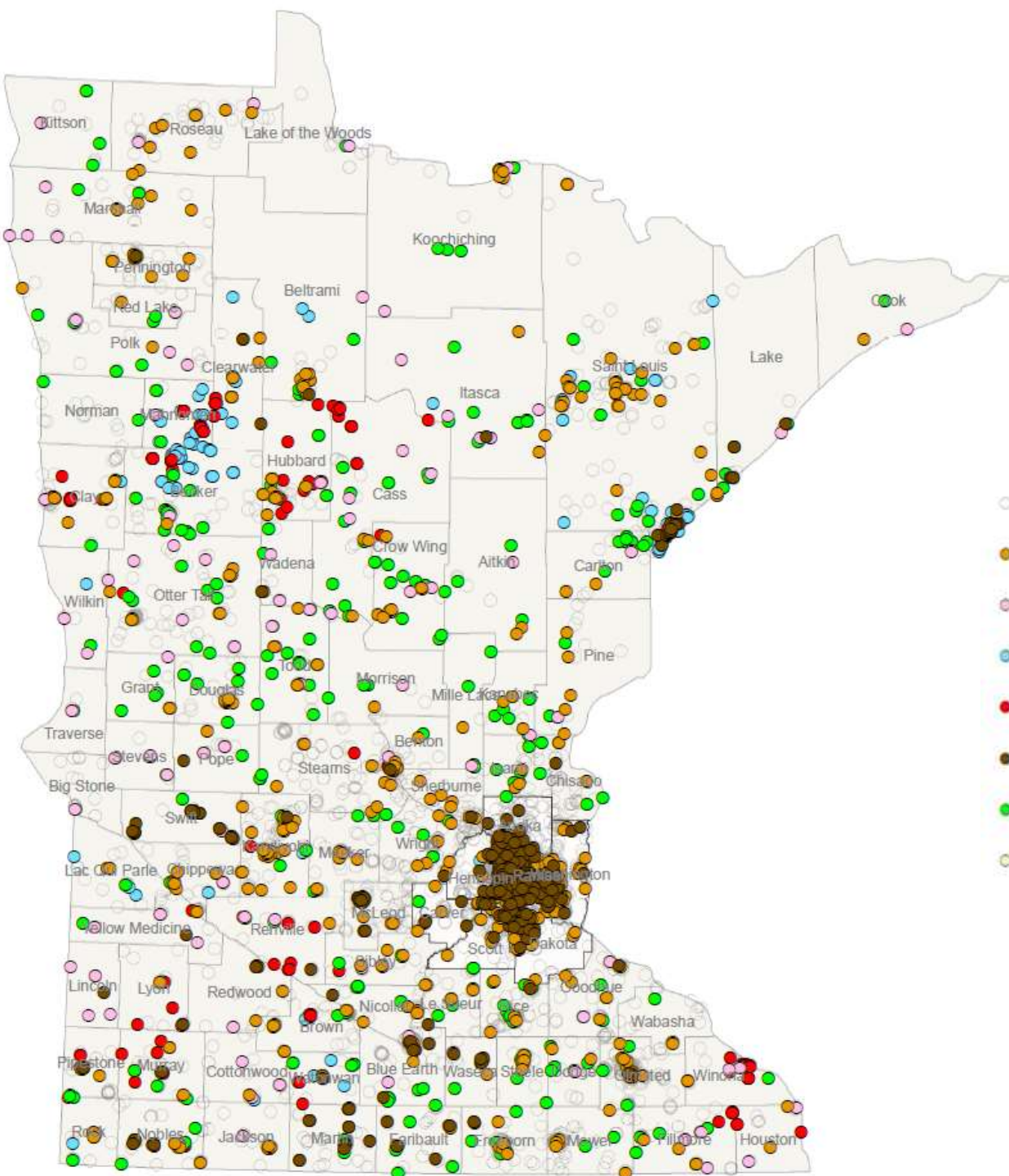
Program

- Geographic limitations
- Lead reduction requirements

Approaches to Offering Home Improvement Programs



Who is Being Served and Where?



- Fix Up secured loans
- Fix Up unsecured loans
- DEED Small Cities def. forgivable loans
- Impact Fund deferred loans
- GMHF deferred loans
- Community Fix Up, secured loans
- RD Sec. 504 1% loans
- RD Sec. 504 grants

Programs in a Nutshell



- Community Homeownership Impact Fund
- Greater Minnesota Housing Fund
- DEED Small Cities Development Program
- Fix Up and Community Fix Up
- USDA RD Section 504

Competitive RFP

DEED Small Cities Development Program

- Cities < 50,000 and counties < 200,000
- **Annual RFP**
 - Preliminary proposal due in November
 - App due in February
- 0% interest
- 7-10 year forgivable loan

Minnesota Housing Impact Fund

- Statewide
- **Annual RFP**
 - Due in June
- 0% interest
- 30-year deferred loan

Greater Minnesota Housing Fund

- Outside of the 7-county metro
- **Annual RFP**
 - Due in June
- 0% interest
- 30-year deferred loan

Competitive RFP: DEED Small Cities Development Program (SCDP)

Characteristics

- < 80% of county median income
- Cities \leq 50,000 or counties \leq 200,000
- Limit of \$25,000
- Progressively-forgivable deferred loans (7-10 years)

Financial Incentive

- 15% of SCDP award as administrator fee

Drawbacks

- Larger communities ineligible
- Few others!



Competitive RFP: Impact Fund

Characteristics

- $\leq 115\%$ of AMI
- 30-year deferred loan
- 0% interest
- Can be used to discount the interest rate of a Community Fix Up loan to increase affordability

Financial Incentive

- \$500 fee per unit for administrator

Drawbacks

- Scarce, competitive, not guaranteed
- “Special niche” required



Competitive RFP: GMHF

Characteristics

- $\leq 80\%$ of Statewide or AMI
- Outside of 7-county Twin Cities metro
- Limit of \$8,500
- 30-year deferred loan
- 0% interest

Financial incentive:

\$300 fee per unit for administrator (if no other administrator fee)

Drawbacks

- Scarce, competitive, not guaranteed
- Loan must be repaid



Are You Leveraging Lender-Driven Programs?

Competitive RFP Programs



Minnesota Housing

- Fix Up
- Community Fix Up

USDA RD Section 504

- Loan
- Grant

Lender-Driven: Minnesota Housing Fix Up Loan Program

Key Features	Unsecured Loan	Unsecured Energy Incentive Loan*	Secured Loan	Secured Energy/Accessibility Loan
Income Limit	\$99,500	No income limit	\$99,500	No income limit
Maximum Loan Amount	\$15,000	\$15,000	\$50,000	\$15,000
Security Type	No mortgage lien	No mortgage lien	Secured by mortgage lien	Secured by mortgage lien
Maximum Repayment Term	10 years	10 years	10 to 20 years	10-20 years
Minimum Credit Score	680	680	620	620
Interest Rate	6.49% - 6.99%	4.99%	5.99%	4.99%

*This project was made possible by a grant from the U.S. Department of Energy and the Minnesota Department of Commerce through the American Recovery and Reinvestment Act of 2009 (ARRA)

Lender-Driven: Minnesota Housing Fix Up Loan Program

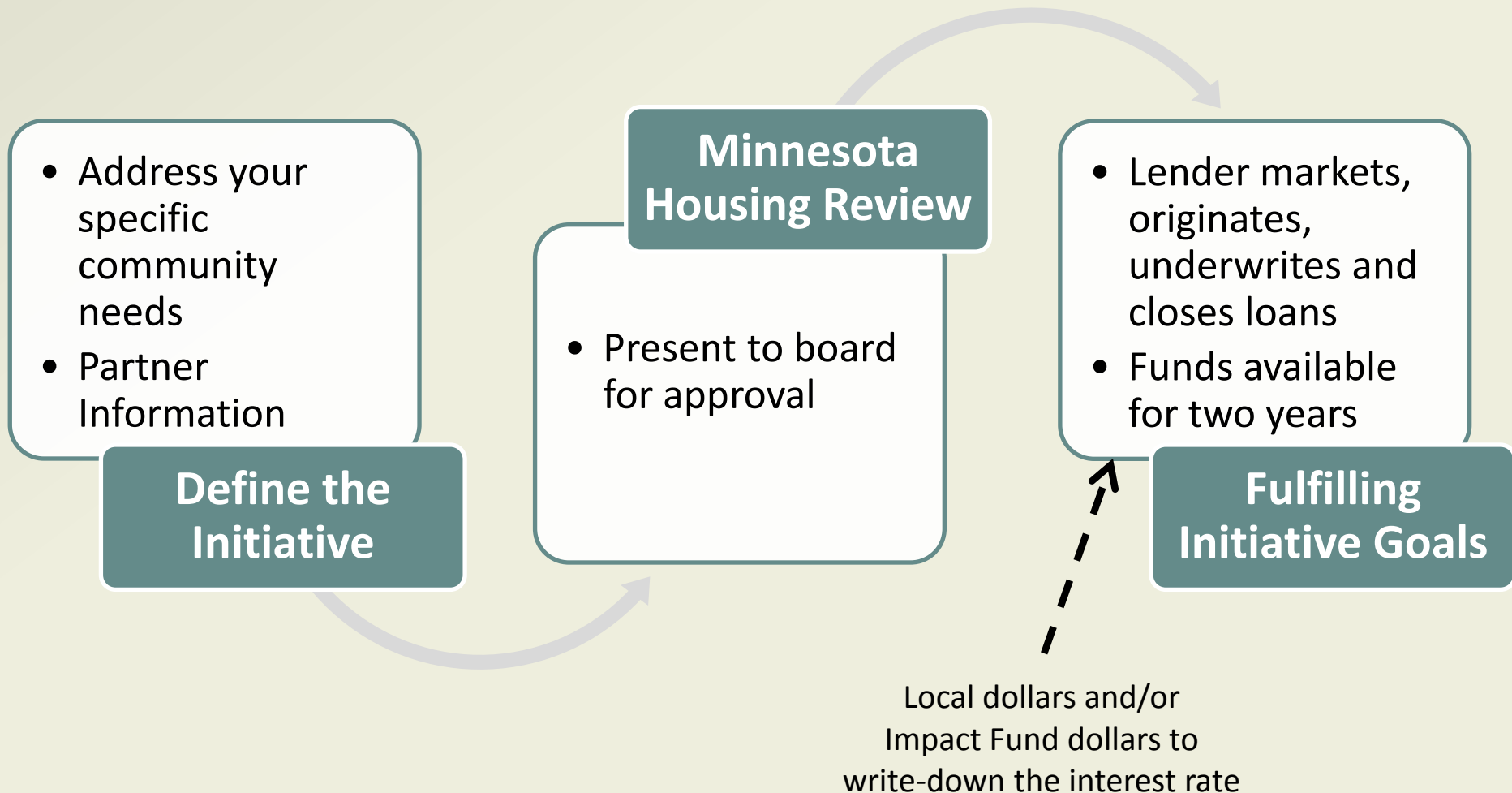
Financial Incentive for Lender

- \$400 secured loan or \$250 unsecured loan
- 1% origination fee on secured loans
- \$50 admin Fee

Drawbacks

- Requires minimum 620 credit score (680 for unsecured loan)
- Monthly payment may not be affordable

Community Fix Up



Regional Offices: USDA RD Section 504

	Loan	Grant
Income Limit	≤ 50% of AMI	
Maximum Amount	\$20,000	\$7,500
Security Type	Secured if > \$7,500	
Max Term	20 years	
Rate	1%	
Credit Score	“In good standing”	
Geographic Area	Rural resident or city pop. ≤ 20,000	

Regional Offices: USDA RD Section 504

Section 504 Characteristics

- \$7,500 grant for ages 62+ or those who cannot afford to pay 1% loan
- Referral made to local USDA Rural Development (**12 offices** throughout Minnesota)
- Office assists homeowner to complete application package

Administrator Incentive

- Stretch out resources in other programs
- Help more homeowners in your communities
- Combine with Section 504 to address full project costs/needs

Drawbacks

- Loans over \$7,500 requires lien on property
- Cities with population > 20,000 ineligible

Why Combine Programs?

1. Competitive RFPs require leverage funds

2. Reach more households

3. Flexibility

Let's look at some examples...
***What does this mean
in the real world?***

Scenario #1



Who:

“Housing-rich” senior household that lives in Crookston, but very low income ($\leq 50\%$ AMI or \$38,700), big deferred maintenance

Considerations:

- Population under 20,000
- Large project cost (\$40K)
- Very low income
- Household age 62+

Possible programs:

- USDA RD
- DEED SCDP
- Greater Minnesota Housing Fund

Scenario #1



Sources

USDA	Loan, 1%, 20 years	\$12,000
	Grant	\$7,500
DEED	0% deferred forgivable loan	\$15,500
GMHF	0% deferred loan	\$5,000
	Loan To Value	32%
	Debt To Income	33%
	Total loan	\$32,500
	Total grant	\$7,500

Result

- Amortizing monthly loan payment = \$55
- 20-year term

Example

NW Minnesota Multi-County
HRA (Mentor, MN)

Scenario #2



Who:

Family with zero equity in Faribault, 680 credit, <80% AMI or \$62,000, and high non-housing debt, need new roof and water heater

Considerations:

- Population under 50,000
- Underwater
- Decent credit
- Project cost = \$20,000

Possible programs:

- Unsecured Fix Up loan (with or without Impact Fund)
- DEED SCDP deferred forgivable loan

Scenario #2



Sources

DEED	0% deferred forgivable loan	\$17,000
Fix Up	Loan	\$3,000
	Rate	6.49%
	Loan To Value (up to 110% of after-improved value for Fix-Up)	105%
	DTI (generally can't exceed 48% for Fix Up)	35%
	Total loan	\$20,000
	Total grant	\$0

Result

- Amortizing monthly loan payment = \$34
- 10-year term

Example

SEMCAC (Rushford, MN)

Scenario #3



Who:

Moderate income ($\leq 100\%$ AMI or \$77,400) that lives in Cloquet, 700 credit, high non-housing debt, drafty “energy hog” home

Considerations:

- Moderate income
- Good credit but high non-housing debt
- Project cost = \$15,000
- Not underwater

Possible programs:

- Secured Fix Up loan, energy incentive
- Impact Fund deferred loan

Scenario #3



Sources

Fix Up	Loan	\$12,000
	Energy Incentive rate	4.99%
Impact Fund	0% deferred loan	\$3,000
	Loan to Value (up to 110% of after-improved value for Fix-Up)	101%
	DTI (48% max for Fix Up)	46%
	Total loan	\$15,000
	Total grant	\$0

Result

- Amortizing monthly loan payment = \$127
- 20-year term

Example

Headwaters Regional Development Commission (Bemidji, MN)

Scenario #4



Who:

Very low income household ($\leq 50\%$ AMI or \$38,700) in Willmar, okay credit (645), accessibility needs

Considerations:

- Population under 20,000
- Low income
- Project cost = \$15,000

Possible programs:

- Community Fix Up secured loan, write-down the interest rate to 1%
- USDA RD, 1%

Scenario #4



Sources

Community		
Fix Up	Loan	\$7,500
	Rate	1.00%
	Write-down (grant funds)	\$1,514
USDA	Loan, 1%, 20 years	\$7,500
	Grant	
	Loan to Value (up to 110% of after-improved value for Fix-Up)	98%
	DTI (generally can't exceed 48% for Fix Up)	32%
	Total loan	\$15,000
	Total grant	\$1,514

Result

- Total combined monthly loan payment =
 - \$100 for the first 10 years (\$66/month Fix Up, \$34/mo USDA RD loan)
 - After that, it would drop to \$34/month (the RD loan)

Examples

- Hutchinson HRA
- Greater Metropolitan Housing Corporation (Minneapolis/west Metro)

St. Paul Credit Initiative

Address underwater households with lower credit score

Reduced unsecured loan credit score requirement to 620

City provided loan loss reserve funds

Your questions?

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More information

Minnesota Homeownership Center's

Home Rehab and Repair Matrix, which provides a detailed list of available Minnesota programs based on your address

<http://www.hocmn.org/resources-for-homeowners>

Thank you!

