MEETINGS SCHEDULED FOR MAY

Location:

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

THURSDAY, MAY 28, 201p

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

Finance and Audit Committee Meeting
Jelatis Conference Room – Third Floor
2:45 p.m.*
**estimated start time. Will begin 10 minutes following the conclusion of the regular meeting*

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, May 28, 2015.

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.

Minnesota Housing Finance Agency

400 Sibley Street | Suite 300 | Saint Paul, MN 55101-1998 | 651.296.7608
800.657.3769 | fax: 651.296.8139 | tty: 651.297.2361 | www.mnhousing.gov
Equal Opportunity Housing and Equal Opportunity Employment

DATE: May 21, 2015

TO: Minnesota Housing Board Members

FROM: Mary Tingerthal, Commissioner

SUBJECT: **FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **2:45 p.m.** on **Thursday, May 28** at the offices of Minnesota Housing, 400 Sibley Street, Suite 300, St. Paul, MN in the **Jelatis Conference Room on the third floor**.

This committee meeting will begin 10 minutes following the adjournment of the regular board meeting. The time listed above is based on the estimated duration of the regular board meeting.

The topics for discussion at this meeting are:

A. Audit Risk Assessment Standards and Audit Planning
B. Review of Risk Based Capital Adequacy Study
C. Approval of any necessary related administrative matters
D. Adjournment

Materials will be provided at the meeting.

All members are encouraged to attend.

If you have questions, please call Becky Schack at (651) 296-2172.

Minnesota Housing Finance Agency
400 Sibley Street | Suite 300 | Saint Paul, MN 55101-1998 | 651.296.7608
800.657.3769 | fax: 651.296.8139 | tty: 651.297.2361 | www.mnhousing.gov
Equal Opportunity Housing and Equal Opportunity Employment

AGENDA

Minnesota Housing Board Meeting

Thursday, May 28, 2015

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 April 23, 2015
5. **Reports**
   A. Chair
   B. Commissioner
   C. May 7, 2015 Program and Policy Committee Meeting
6. **Consent Agenda**
   A. Amendment to Board Policy 1 (Debt Management) to Permanently Increase Short-term Debt Limit
   B. Reallocation, Homeownership Education Counseling and Training (HECAT)
   C. Selections, Community Fix Up Loan Program
      - Headwaters Regional Development Commission
   D. Loan Modification, Twin Cities Community Land Bank
   E. Community Homeownership Impact Fund Program Procedural Manual Changes
   F. Approval, Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs
      - Carlson Crossing (formerly Cloverdale), St. Joseph D1499
   G. Resolution Ratifying Execution and Delivery of Amendments to Standby Bond Purchase Agreements with the Royal Bank of Canada and Fee Letters
7. **Action Items**
   A. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2015 Series A
   B. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2015 Series B
   C. Selections, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)
   D. Funding Recommendations, Family Homelessness Prevention and Assistance Program (FHPAP)
   E. Selection/Commitment, Bridges Rental Assistance Program
   F. Selection/Commitment, Financing Adjustment (FA) Loan
      - Hillside Terrace, Monticello, D0998
   G. Selection/Commitment, Financing Adjustment (FA) Loan

- Kimberly Meadows, Plymouth, D1138

H. Amendment to the 2015 Affordable Housing Plan (AHP): Flexible Financing for Capital Costs (FFCC) Program and Asset Management Fund

I. Selection/Commitment, Low and Moderate Income Rental (LMIR) and Low and Moderate Income Rental Bridge Loan (LMIR-BL) and Preservation Affordable Rental Investment Fund (PARIF) Programs
   - Parkview Villa, Columbia Heights, D6179

J. Selection/Commitment, Low and Moderate Income Rental (LMIR), Low and Moderate Income Rental Bridge Loan (LMIR-BL) and Flexible Financing for Capital Costs (FFCC) Programs
   - Cathedral Hill, St. Paul, D2621

K. Program Evaluation Results, Approval of Modifications and Extension of the Rental Rehabilitation Deferred Loan (RRDL) Pilot Program

8. Discussion Items

A. Legislative Update

9. Informational Items

A. 2015 Affordable Housing Plan and 2013-15 Strategic Plan: Second Quarter Progress Report

10. Other Business

None.

11. Adjournment

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, April 23, 2015
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
Chair DeCramer called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:00 p.m.
2. **Roll Call.**
Members present: Gloria Bostrom, John DeCramer, George Garnett, Craig Klausing, Stephanie Klinzing, and Rebecca Otto. Absent: Joe Johnson.
Minnesota Housing staff present: Gene Aho, Tal Anderson, Paula Beck, Laura Bolstad, Dan Boomhower, Jessica Deegan, Vicki Farden, Anne Heitlinger, Krissi Hoffman, Bill Kapphahn, Eric Mattson, Judi Mortenson, Kirsten Partenheimer, Michael Peterson, Devon Pohlman, Caryn Polito, Bob Porter, Paula Rindels, Megan Ryan, Joel Salzer, Becky Schack, Lori Speckmeier, Barb Sporlein, Emily Strong, Kim Stuart, Mike Thomas, Susan Thompson, Rob Tietz, Mary Tingerthal, Katie Topinka, Ted Tulashie, Summer Watson, Heidi Welch.
Others present: Michelle Adams (by phone), Kutak Rock; Jean Lee, APAHC, CHI/RRFC; Hilary Lovelace, UMN; Cory Hoeppner, RBC Capital Markets; Chip Halbach, Minnesota Housing Partnership; Tom O'Hern, Assistant Attorney General; Celeste Grant, Office of the State Auditor.
3. **Agenda Review**
Chair DeCramer announced that the minutes had been revised for clarity and new copies had been distributed. Chair DeCramer also announced that revised reports had been distributed for items 7.C., to include additional income limits, and for 7.D., to clarify information about subsidy layering. Chair DeCramer also stated that, when the meeting reached the discussion items, the meeting would be closed for discussion of the Agency's response to the HUD fair housing complaint.
4. **Approval of the Minutes.**
A. Regular Meeting of Thursday, March 26, 2015
Auditor Otto moved approval of the revised minutes. Mr. Garnett seconded the motion. Motion carried 5-0, with Ms. Bostrom abstaining.
5. **Reports**
A. Chair
Chair DeCramer welcomed Mr. Klausing to his first meeting as a member of the Board.
B. Commissioner
Commissioner Tingerthal opened her report with a legislative update, stating there was good news in the Governor's bonding bill proposal, which includes $50 million for housing, with levels for general obligation bonds and housing infrastructure bonds similar to levels seen in the past. Commissioner Tingerthal added that the house does not have a bonding bill, but staff is pleased to have been invited to an informal hearing with the capital investment committee where staff described the Agency's activities and its uses of bond proceeds. Commissioner Tingerthal stated it was a nice session and committee members asked good questions. Commissioner Tingerthal then shared that the house bill includes cuts to the Agency's base and also creates an office of workforce housing at the Department of Employment and Economic Development (DEED). The bill also provides workforce housing funding that does not include income limits. There are also policy changes that would eliminate the Indian set-aside in Challenge, which would break a long-term

commitment to the work the Agency has accomplished in partnership with the tribes over the years. There are a set of changes to Challenge that are very concerning, including that 50% of the funds be used for workforce housing, whose definitions include a requirement that there be no income limits and that the dollars of that set-aside cannot be combined with any other resource that has income limits, which would limit the ability to leverage Challenge funds. The policy changes also include a requirement that goes over our development programs on a limitation of profit to developers. Currently, if you're building low-income housing, there is a limit on profits. The proposed legislation allows for no profit cap on housing that does not have income limits. Under the proposed program changes, only $2.5 million in Challenge funding would be available in the metro area. The Agency testified about its concerns, but the proposed changes passed the ways and means committee and had passed the house floor as well. Commissioner Tingerthal then stated that the senate bill has none of the policy changes contained in the house bill and includes $16.4 million above the base and includes all of the Governor's recommendations as well as additional funding for Challenge, FHPAP, housing rehab and capacity building. The senate bill has been passed without amendments and it is expected that conferees will be named soon. Commissioner Tingerthal added that the senate bill also funds an office of workforce housing at the DEED, but does not fund it with Agency resources. Commissioner Tingerthal shared that the Agency is having ongoing conversations with DEED about how to testify about these proposals. Mr. Klausing inquired about DEED's position on the bills and Commissioner Tingerthal responded that it is not something for which DEED has advocated. DEED has stated that they believe that housing should be done by Minnesota Housing, but if the bills are passed, they are obligated to administer the program.

Commissioner Tingerthal then shared that the Agency had kicked off its 2015 round of Community Dialogues in Greater Minnesota. A dialogue was held in Appleton on April 2 and there is one the coming up in Willmar. There are good RSVPs coming in for Willmar but Commissioner Tingerthal stated she was concerned about what is happening with poultry in that part of the state and she was sure the situation would shadow discussions about involvement by employers, as the situation is economically devastating.

Commissioner Tingerthal concluded her report by sharing that Mr. Bob Porter was retiring in June after 20 years with the Agency.

C. Committee

There were no committee reports.

6. Consent Agenda

A. Commitment, Low and Moderate Income Rental (LMIR) Program - Pine Ridge Apartments, Grand Rapids, D0597

MOTION: Ms. Stephanie Klinzing moved approval of the consent agenda and the adoption of Resolution No. MHFA 15-009. Auditor Otto seconded the motion. Motion carries 6-0.

7. Action Items

A. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Homeownership Finance Bonds

Mr. Rob Tietz presented this request for approval of up to $200 million of bonding authority in the HFB indenture. Mr. Tietz provided the Board with information regarding single family production and the market for single family bonds, stating that the Agency had issued eight new money transactions totaling more than $400 million since March of 2014. Mr. Tietz stated that today's authorization would allow the Agency to continue putting full spread interest earning assets on its balance sheet, helping to ensure long term, predictable earnings for years to come. Mr. Tietz informed the Board that the first transaction to be issued under the new authorization is expected to be between $40 million and $50 million and would include hedging economics.

Ms. Michelle Adams of Kutak Rock joined the meeting by phone and described the terms of the resolution, stating that the Board was being asked to approve a $200 million maximum authorization and stating that the authorization would last until June 30, 2016. Once that date or the maximum authorization was reached, the Board would need to approve additional bonds sold under the HFB resolution. Other parameters described by Ms. Adams included a not-to-exceed yield and a maximum net underwriter's compensation. Ms. Adams stated that the resolution both authorizes the bonds and delegates power to authorized officers to determine the structure of the bonds and the dates of issuance. **MOTION:** Ms. Bostrom moved approval of Resolution No. MHFA 15-008 authorizing the issuance of homeownership finance bonds. Auditor Otto seconded the motion. Motion carries 6-0.

B. Affordable Housing Plan Amendments, Down Payment Assistance Programs

Ms. Devon Pohlman presented this request, stating that there had been robust production in the home mortgage programs. Ms. Pohlman added that costs in Minnesota are relatively affordable compared to national markets and this affordability combined with low interest rates is allowing the Agency to serve more homeowners in general and first-time home buyers in particular. Ms. Pohlman stated that this unique environment of prices and rates does stress the entry cost assistance programs, which have had continuing high production. Ms. Pohlman stated that program staff has developed a more robust forecast model to predict entry cost assistance usage and the new model incorporates current volume and seasonality. Ms. Pohlman stated that the requested affordable housing plan amendments are in areas where line item increases are needed and also combines two program budgets to allow flexibility to make money fungible between the two programs. These programs, the deferred payment loan (DPL) and DPL Plus, will still be managed independently. Ms. Pohlman cautioned that the requested budget increases for the downpayment assistance programs may be insufficient, because staff is currently making program changes. Those changes are intended to address the program budget shortages while still fulfilling the Agency mission, but may not completely fill the funding gap and staff will continue to monitor production daily. In response to a question from Mr. Garnett, Commissioner Tingerthal stated that the program changes were being presented separately from the funding changes because the budget changes require amendments to the affordable housing plan and staff felt it was important that the Board act on the items separately. **MOTION:** Auditor Otto moved approval of the amendments to the affordable housing plan. Mr. Klausing seconded the motion. Motion carries 6-0

C. Homeownership Program Changes and Manual Updates

Next, Ms. Pohlman presented for approval the homeownership program changes that she had alluded to in her previous presentation. Ms. Pohlman stated that a revised version of the report had been distributed that included income limits for three person households that had been inadvertently excluded from the original report. Ms. Pohlman stated that three manuals would be impacted by the program changes, which include changes to income limits and the elimination of a lender application and approval process for one program.

Ms. Pohlman stated that the program changes are intended to maintain production as much as possible, while stretching resources to serve homeowner and maintaining targeting. Ms. Pohlman stated that staff evaluated borrower need and cash needed to close when determining the maximum loan limits. Staff anticipate some production loss following implementation of the changes, but have developed a robust communication strategy about the changes. In response to a question from Chair DeCramer, Ms. Pohlman stated that staff is working closely with the Agency's communications team to ensure partners are aware of the changes. Included in the communications strategy are: using eNews to get the message out broadly, having talking points about the changes, making direct outreach calls, and hosting two webinars. In response to a question from Chair DeCramer, Ms. Pohlman stated that staff is meeting two weeks from the date of the program changes to determine how they may implement additional communication strategies if they find there is a loss of production. Mr. Klausing commented that it was his understanding that the demand for these products is more than the Agency had anticipated and the budget changes will allow the Agency to reach more borrowers with these programs. Ms. Pohlman agreed, stating that staff is starting to understand how these newer programs, including the amortizing program, perform in a better economic climate. Ms. Pohlman added that staff will soon begin budgeting for the next program year. In response a question from Mr. Klausing, Ms. Pohlman stated that eliminating the additional lender application is anticipated to shift program demand from the DPL program to the DPL Plus program, because there are some borrowers served by DPL that may be eligible for DPL Plus, which is a more targeted program.

Commissioner Tingerthal added that the Single Family team worked with the Research and Finance departments to plan for beyond the current program year to seek out changes that will keep the programs sustainable for future years by tapering the need for grant dollars so the program can continue to operate. Auditor Otto commented that it is not unusual for staff to recommend changes to programs to allow the Agency to meet demand and staff continues to analyze and monitor those programs following changes. Ms. Klinzing stated she felt that staff has done a good job of balancing resources and need. Ms. Pohlman offered her thanks to the teams that worked on the changes. **MOTION:** Ms. Bostrom moved approval of the homeownership program changes and manual updates. Ms. Klinzing seconded the motion. Motion carries 6-0.

D. Targeted Mortgage Opportunity Program (TMOP) Procedural Manual Changes

Ms. Heidi Welch opened her presentation by notifying the Board of a revision to the memo to correct the way in which the allowable resource layering was characterized. Ms. Welch stated that TMOP continues to have nearly 80% of participation by households of color or Hispanic ethnicity and provided additional program information to the Board. Ms. Welch requested approval of the changes to the manual that would help to clarify program guidelines as well as create a new requirement that conflict of interest policies be in place for participating program lenders. Other updates included information regarding audit requirements that will put the program in alignment with other single family programs and an update of the income limits so that the program would remain in line with Start Up limits. Ms. Welch then described the communications plans for the changes. In response to a question from Mr. Garnett, Ms. Welch stated that the enhanced financial capacity organizations that provide counseling services were selected through an RFP issued the previous year and stated that an NHS organization would be considered a “like” provider that is viewed as meeting the same requirements of the enhanced financial capacity organizations. Ms. Welch added that there is a new RFP out now. Commissioner Tingerthal added that funding was provided to seven counseling organizations and that counseling does not have to come from one of those organizations, but must be from a “like” organization in order to qualify for a TMOP mortgage. Mr. Garnett stated that he wanted to be sure the work done by NeighborWorks in the state was not being excluded. **MOTION:** Auditor Otto moved approval of the changes to TMOP procedural manual. Mr. Garnett seconded the motion. Motion carries 6-0.

E. Selections, Section 811 Demonstration Program Rental Assistance

Ms. Vicki Farden requested approval of selections and commitments under the Section 811 program, which provides supportive housing opportunities for persons with disabilities. Ms. Farden stated that this is a new program for the Agency and is a demonstration program from HUD that

Minnesota Housing, in conjunction with the Department of Human Services, was awarded in February 2013. Ms. Farden stated that the project provides $3 million for 85 supported units and addresses key action steps in Minnesota's Olmstead Plan and Minnesota's Plan to Prevent and End Homelessness.

Ms. Farden provided additional information about the Section 811 program, stating that four properties were invited to submit stage two applications following the RFP and two state two applications were received. Staff had determined the applicants were eligible and are now recommending them for selection. Ms. Farden stated that Section 811 would continue to be available on an open pipeline basis and staff has implemented a very proactive marking campaign, with senior Agency leaders contacting building owners to talk about their interest in pursuing vouchers and staff following up with informational meetings. Ms. Farden acknowledged that the program has been difficult to market because there is not a lot of incentive for owners to take on another program with additional restrictions, as the program requires a 20-year rental assistance contract and a 30-year affordability period. Commissioner Tingerthal brought to the Board's attention that staff is requesting that future approvals be placed on the consent agenda.

Chair DeCramer inquired about DHS's preferred location and Ms. Farden stated that the program is being operated under a "money follows the person" model, or PATH, and that program operates only in certain areas of the state, but covers most regional hubs or large cities.

In response to a question from Mr. Klausing, Ms. Farden stated that 15 stage 1 applications were received and four met the eligibility requirements. Staff identified properties that were not originally eligible but have become eligible under federal program changes. Staff will contact those owners to inform them of eligibility.

Ms. Bostrom stated that she was in agreement that future requests could be on the consent agenda, but she would like to periodic reporting of the program. Ms. Farden responded that, as a demonstration program, there are a number of reporting requirements and those reports would be shared with the Board.

Mr. Garnett commented that the program had a daunting set of criteria and asked if staff had concerns about developing a market for the program. Ms. Farden responded that most of the requirements are set by HUD, but the Agency is willing to be flexible on the criteria over which it has control. As an example, she stated that the program originally did not allow for fewer than four units due to administrative and accessibility concerns, but are now considering fewer units and walk-up buildings because not all disabled persons require fully accessible housing. Mr. Garnett encouraged the flexibility or the program would have a hard time in the market. Ms. Klinzing agreed with his concerns, stating that the low vacancy rate and lack of incentives will make it difficult to attract owners to participate.

Auditor Otto suggested that non-profits be approached to help with outreach and Ms. Farden responded that staff had met with CommonBond, Aeon, and PPL and there is some interest but a need to find fit. Ms. Farden also stated that it can be difficult with nonprofit providers because they are already offering supportive housing or Section 8 at their properties, but are extending themselves to make the program work because it helps meet their mission of providing affordable housing for persons with disabilities. **MOTION:** Ms. Klinzing moved approval of the selections and the adoption of Resolution No. MHFA 15-010. Ms. Bostrom seconded the motion. Motion carries 6-0.

F. Housing Tax Credit (HTC) Program - 2015 Round 2 Selections and Waiting List

Mr. Bob Porter requested approval of the round two selections and waiting list, stating eight applications were received requesting $1.7 million in annual tax credits. Mr. Porter added that three supplemental priority class applications were received. Mr. Porter described the process for round two selections and waiting list placement. In response to a question from Chair DeCramer, Mr. Porter stated that the three selected projects are located in Minneapolis, Forest Lake and Mahnomen. Chair DeCramer thanked Mr. Porter for his years of service to Minnesota Housing.
MOTION: Auditor Otto moved approval of the selections and waiting list and the adoption of Resolution No. MHFA 15-011. Mr. Garnett seconded the motion. Motion carries 6-0.

G. Qualified Allocation Plan (QAP) and Procedural Manual, 2017 Housing Tax Credit (HTC) Program

Ms. Kayla Schuchman requested approval of the 2017 Housing Tax Credit Program and Qualified Allocation Plan and Procedural Manual. Ms. Schuchman stated that the Board had seen a draft in February and a public hearing was held in March. Staff had reviewed all comments and proposed changes resulting from those comments were reflected in the Board materials. Ms. Schuchman summarized the major areas of comment for the Board, which included the following:

- The initial proposal for planned community development included a flexible and robust definition of planned community development. Comments received requested more detail and clarification of terms used in the definition and staff has clarified the types of plans that qualify and the evidence needed to support that a project is part of such plan. Regional plans are now explicitly included as well.

- Public comments expressed a concern that WalkScore requirements were biased against smaller Greater Minnesota communities. As a result of these comments, the location efficiency thresholds have been lowered for areas without fixed route transit. There were also concerns expressed about the reliability of WalkScores, which is a new tool used for 2016 scoring. Staff has tested the data and has confidence in it. A procedure has been put in place allowing applicants to contest scores and have a resolution within 45 days. Ms. Schuchman acknowledged that applications under the current RFP are the first to use the WalkScore tool.

- The economic integration scoring had been revised based on comments. Comments received suggested that the scoring would result in unintended effects in Greater Minnesota, where tracts tend to be at the fringes of areas near lakes or farmland that don't allow walkability, transit access, efficient growth, etc. There was concern that these issues may put smaller communities at a disadvantage and the scoring has been revised as a result.

Ms. Schuchman stated that the comments received were very thoughtful and the comments are one way in which feedback was received. Ms. Schuchman added that staff would continue to build on engagement efforts to ensure the Agency has a tool that is responsive to housing needs across the state. Ms. Schuchman stated that the next step following Board approval is to revise the documents and obtain approval from the Governor. Ms. Schuchman added that the RFP with the revised criteria would be released in Spring 2016.

Chair DeCramer stated that he thought staff had made good strides in easing the concerns regarding WalkScores and inquired if the Agency would know if a revision was requested. Ms. Schuchman stated that staff were not anticipating being notified and view it as a separate process in which the Agency is not involved. Staff would be notified if the tool on the website was updated and the applicant would receive notification that their score was being updated.

Mr. Garnett asked for further clarification about comments received regarding qualified census tracts. Ms. Schuchman stated that qualified census tracts are published by HUD each year and the Agency is required to give them consideration in the QAP under Section 142. Commissioner Tingerthal added that the tracts are statutory at the federal level and the Agency must include points, but those points are included at the minimal level.

Chair DeCramer stated that there seems to be concerns expressed in the comments that smaller communities are not covered as well and he believed that, as the Agency progresses through the process, it can get out the information that it is looking at Greater Minnesota and the metro area. Chair DeCramer asked that the Agency think about how that information is communicated.
MOTION: Auditor Otto moved approval of the Qualified Allocation Plan (QAP) and Procedural Manual and 2017 Housing Tax Credit (HTC) Program. Ms. Bostrom seconded the motion. Motion carries 6-0.

8. Discussion Items
None.

9. Informational Items
A. Report of Complaints Received by Agency or Chief Risk Officer
B. Post-Sale Report, Homeownership Finance Bonds, 2015 Series B
C. Post Sale Report, State Appropriation Bonds (Housing Infrastructure) 2015 Series A and B
Informational items. No presentation or discussion.

10. Other Business
Mr. Klausing moved to close the meeting. Auditor Otto seconded the motion. Motion carried 6-0 and the meeting was closed pursuant to Minnesota Statutes Section 13D.05, Subdivision 3b at 2:33 p.m. for the purpose of discussing the Agency's response to the HUD fair housing complaint. The meeting was reopened at 3:40 p.m. and Chair DeCramer reported that the Board had discussed the complaint and the Agency's response with staff and counsel.

11. Adjournment.
The meeting was adjourned at 3:40 p.m.

____
John DeCramer
Chair

AGENDA ITEM: 6.A
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Amendment to Board Policy 1 (Debt Management) to Permanently 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: Board Policy

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests an amendment to Section 1.06 of Board Policy 1 (Debt Management) to permanently increase the short-term debt limit from $75 million to $150 million. This increase will allow the Agency to continually have the resources available to purchase and warehouse our mortgages until such a time is determined to issue bonds or sell them into the TBA markets. The requested action is in support of the Agency's "best execution" finance strategy.

As the Minnesota housing market continues to improve, demand for Minnesota Housing Finance Agency mortgages has accelerated. March reservations totaled nearly $70 million while April reservations totaled over $110 million. On average we have been funding between $25 million and $40 million of mortgages per month dating back to July 2014 but expect this figure to increase significantly in the coming months as the increased reservations start working their way through the pipeline.

FISCAL IMPACT:
The Agency uses borrowings with the Federal Home Loan Bank of Des Moines to purchase our own MBS and warehouse them until we finance them permanently by issuing bonds. Given current lending rates, the Agency is earning a spread between 3.15% and 4.40% during this warehouse period. These borrowings typically mature within 30-45 days and are subject to the board's policy limiting short-term debt.

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):

- Proposed revision to Section 1.06 of the Debt Management Policy

Proposed change to 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~~ $150,000,000 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.

AGENDA ITEM: 6.B.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Reallocation, Homeownership Education, Counseling and Training (HECAT) Fund

CONTACT: Tal Anderson, 651-296-2198
tal.anderson@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 Homeownership Education, Counseling and Training (HECAT) Fund provides yearly financial support for comprehensive homebuyer training which may include education and counseling in a variety of areas, including: in-person homebuyer education and counseling (pre-purchase), home equity conversion counseling, and foreclosure prevention counseling.

Staff is hereby requesting board approval of funding modifications for two participants in the HECAT program, Inter-County Community Council (ICCC) and West Central Minnesota Community Action.

FISCAL IMPACT:
HECAT funding recommendations are supported by the Affordable Housing Plan budget, state appropriations and committed co-funder leverage.

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

ATTACHMENT(S):
- Background

BACKGROUND

At the August, 2014 Board meeting, the Agency board approved HECAT funding for the program year that started on October 1, 2014. In April of each year, Agency staff meet with other co-funders to discuss progress towards statewide coverage for all activities as well as goals for individual agencies.

Since the start of the program year, there have been significant programmatic developments with two organizations providing foreclosure prevention services:

1) Inter-County Community Council (ICCC), an agency that serves Red Lake, Pennington, East Polk and Clearwater Counties, has seen a dramatic decrease in demand for foreclosure counseling services. As a result, they have decided to end their foreclosure counseling program and LSS Financial Services has agreed to take over these counties with their existing foreclosure counseling funding.

2) West Central Minnesota Community Action is taking on foreclosure prevention services in Clay and Wilkin Counties, an area that was previously covered by The Village, a nonprofit agency headquartered in Fargo, North Dakota.

Due to ICCC withdrawing from the program, staff is recommending that ICCC's remaining $4,200 of undisbursed foreclosure prevention funds be reallocated to West Central Minnesota County Community Action to compensate them for their additional services in Clay and Wilkin Counties. Based on the tier-based funding model used by the Agency and its co-funders, adjustments to awards for other affected organizations are not recommended.

Minnesota Housing Finance Agency

AGENDA ITEM: 6.C.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Selections, Community Fix Up Loan Program

CONTACT: Claire VanderEyk, 651-296-3724
claire.vandereyk@state.mn.us

Krissi Hoffmann, 651-297-3121
krissi.hoffmann@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 for the Community Fix Up Loan initiative recommended in the attached Initiative Detail. The Community Fix Up Loan initiative accepts proposals from participating Fix Up lenders and their community partners on an ongoing basis. The activities must address home improvement needs resulting in a community impact. New initiatives are approved for a two-year funding access period. Initiatives are eligible for renewal when ongoing activity is identified by the lender and their partners.

FISCAL IMPACT:
Community Fix Up uses Pool 2 funds budgeted in the current Affordable Housing Plan. Action requested is consistent with the program terms described in the plan.

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 and Initiative Detail

BACKGROUND

Staff applies threshold indicators and considers compensating factors when determining whether to recommend a specific proposal for funds access under Community Fix Up. The threshold indicators include:

- Confirmation that the initiative fits within the program concept;
- The strength of the partnership;
- Leverage and/or value-added features;
- A focused marketing plan; and
- Budget counseling, if required.

The following recommended initiative for Community Fix Up meets the guidelines for participation contained within the program concept.

INITIATIVE DETAIL

Region	Application Partners	Estimated Demand	General Program Description
Five county region: Beltrami, Clearwater, Hubbard, Lake of the Woods and Mahnomen	Headwaters Regional Development Commission (HRDC)	Projected volume of three (3) loans for $70,500 at discounted rate of 3% and two (2) loans for $29,000 at discounted rate of 1%. Total of five (5) loans for $99,500.	_X_ New __ Renewal The proposed initiative will use Impact funds already awarded to HRDC in the amount of $25,000 to write down the interest rate on Community Fix Up loans. Household incomes falling between 50% and 80% of Twin Cities Metro Area Median Income (AMI) will receive an interest rate of 3%, while households with incomes below 50% of Twin Cities Metro AMI will receive an interest rate of 1%. Loans will be used to make repairs such as roof, siding, windows, doors, electrical, plumbing and heating.

Minnesota Housing Finance Agency

AGENDA ITEM: 6.D.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Approval, Consolidation of the Revolving Lines of Credit extended to the Family Housing Fund and the Twin Cities Community Land Bank, Modification of Terms, and Termination of the existing Credit Agreement with the Family Housing Fund

CONTACT: Karen Johnson, 651-297-5146
karen.l.johnson@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 adoption of a Resolution to consolidate the revolving lines of credit extended to the Family Housing Fund (FHF) and the Twin Cities Community Land Bank (TCCLB) into one revolving credit facility made directly to TCCLB, to modify terms, and to terminate the credit agreement with the FHF.

TCCLB is a wholly owned subsidiary of the FHF. As a business strategy, the organizations have opted to restructure the owner relationship. Both the FHF and TCCLB believe that the restructuring will better position the organizations to raise equity funds. The restructuring will be implemented strategically over the next 18 months to 3 years, and TCCLB will form a new separate legal entity. Prior to TCCLB transferring its assets to the new entity, Minnesota Housing staff will conduct an analysis in consideration of an assignment and assumption of the revolving credit agreement.

FISCAL IMPACT:
The fiscal impact of this request is minimal. The lines of credit are funded using existing Pool 2 resources as a moderate-risk revolving loan program and comply with the Economic Development and Housing Challenge Fund rules.

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

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND
In 2009, Minnesota Housing provided a $10 million interim loan at 5% interest to the FHF from Pool 2 resources to fund foreclosure remediation efforts. The FHF used the loan to capitalize the newly created TCCLB's foreclosure remediation loan program. The loan was to the FHF and passed through to TCCLB, with the Family Housing Fund remaining as borrower.

In November 2011, the Board adopted Resolution No. MHFA 11-047, which transferred a pilot program activity to TCCLB by making a direct loan of $3 million available to lend to a private developer for foreclosure remediation. This loan to TCCLB allowed Minnesota Housing to wind down a $6 million pilot loan program it previously had with MyHomeSource (MHS).

In April 2012, the Board adopted Resolution No. 12-026, allowing $5 million of the existing $10 million loan to the FHF to be restructured as a revolving direct line of credit to the FHF for housing-related strategic acquisitions, interim financing and land banking activities. The Board also adopted Resolution No. 12-025, which increased the $3 million loan to TCCLB to $15 million and allowed the continued waiver of certain Economic Development and Housing Challenge Program rules pertaining to the limitation on interest rate, the form of application and the 20-month timeline for completion of owner-occupied homes.

In August 2012, the Board adopted Resolution No. 12-057, which modified the maturity dates of the loans to both the FHF and TCCLB from June 30, 2015 to June 30, 2016.

In October 2014, the Board adopted Resolution No. 14-044, which set the loan amount for each loan at $10 million, extended the maturity date of each loan to December 31, 2018, and required a wind-down date to begin 12 months in advance of the maturity date.

Staff began the process of documenting the terms as approved in Resolution No. 14-044 and was advised that further disclosure to the Board was needed before implementing the additional terms as recommended. As a result, in December 2014, the Board adopted Resolution No. 14-053, which included modifying terms to each of the $10 million loans. With respect to the TCCLB loan, the board approved requirements of a maximum developer exposure limit of $3 million, a 3.5% loan loss reserve provision, a 15% net asset ratio covenant, elimination of the FHF guarantee, and updated lending policies and procedures with compliance to be incorporated into the credit agreement. With respect to the FHF loan, the Board approved requirements that TCCLB maintain a current ratio of at least 2.5, a loan loss reserve of 7%, a 1.05 debt service coverage ratio, a net asset ratio of 20% if the outstanding balance on the line is greater than 50% or 15% if the outstanding balance on the line is below 50%, a $3 million limit on acquisitions for the purpose of land banking (projects without an identified take out), pledged collateral on land banked projects, and updated lending policies and procedures with compliance incorporated into the credit agreement.

Staff continued the process of documenting the terms approved by the Board at the October 2014 and December 2014 meetings while awaiting TCCLB's updated Lending Policies and Procedures. Meanwhile; TCCLB and the FHF were engaged in discussions about restructuring their owner relationship. TCCLB is a wholly owned subsidiary of the FHF. Both organizations believe that a restructure will better position the organizations to raise equity funds. The TCCLB informed Minnesota Housing staff that the restructure would be strategically implemented over the next 18 months to 3 years and that TCCLB would be forming a new separate legal entity. As a result, the terms approved by the Board in the October 2014 Resolution No. 14-044 and December 2014 Resolution No. 14-053 were not implemented.

Upon receipt of TCCLB's updated Lending Policies and Procedures and after further analysis, staff recommends consolidating the credit agreements currently extended to TCCLB in the amount of $15 million for the purpose of foreclosure remediation lending activities (single family acquisition and construction loans) and to the FHF in the amount of $5 million for the purpose of housing-related strategic acquisitions (land banking), interim lending (hybrid loans), and mini-perm lending activities into one $20 million credit facility with TCCLB as the borrower, with allocated sublimits of $10 million for each line of business. The $20 million revolving line of credit would continue to accrue interest at an annual rate of 5%.

Staff recommends continued application of a maximum developer exposure limit of $3 million with respect to the $10 million sublimit for the purpose of foreclosure remediation lending activities (single family acquisition and construction loans).

With respect to the $10 million sublimit for housing-related strategic acquisitions (land banking), interim financing (hybrid loans) and mini-perm lending activities, staff recommends continued application of a $3 million maximum aggregate limit on TCCLB land banking strategic acquisitions (projects owned by TCCLB without a resale agreement).

The FHF currently provides a guarantee on the existing $15 million foreclosure remediation credit facility to TCCLB in the amount of $7.5 million. With respect to the proposed $20 million revolving credit facility to TCCLB, the FHF has agreed to provide a guarantee in the amount of $10 million applicable to all of the obligations under the $10 million sublimit for the purpose of housing-related strategic acquisitions (land banking), interim financing (hybrid loans) and mini-perm lending activities. TCCLB will also pledge to the Agency as collateral the assets funded with the $20 million credit facility, with the adequacy of the collateral to be determined by the Agency.

Staff recommends requiring that TCCLB maintain the following financial covenants: a net asset ratio of 20% if the outstanding balance on the line is greater than 50% or 15% if the balance is below 50%, Debt Service Coverage Ratio of at least 1.05, Current Ratio of at least 2.5, and an Allowance for Loan Losses of at least 3.5%.

Finally, in order to allow the time necessary for the development of strategic acquisition sites, staff continues to recommend a four-year term with eligible disbursements ending one year in advance of the maturity date. This agreement will provide TCCLB time to wind down the loan by the maturity date. Since the October 2014 Resolution No. 14-044 extending the maturity date was not implemented, staff recommends revising the maturity date to June 30, 2019 and applying an eligible disbursement period through June 30, 2018 (one year in advance of maturity).

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street – Suite 300
Saint Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING A MODIFICATION OF LOANS TO TWIN CITIES COMMUNITY LAND BANK AND FAMILY HOUSING FUND

WHEREAS, the Agency's Board has adopted Resolutions No. MHFA 11-047, 12-025, 12-026, 12-057, 14-044, and 14-053 related to financing offered to the Twin Cities Community Land Bank and Family Housing Fund;

WHEREAS, the Agency's Board adopted Resolution No. MHFA 14-053 approving a modification of additional terms of its existing financing to the Twin Cities Community Land Bank (TCCLB) and to the Family Housing Fund (FHF) on December 18, 2014;

WHEREAS, Agency staff has examined the structure of the financing and has determined to consolidate the existing credits financed to the TCCLB and the FHF into one $20 million revolving line of credit with TCCLB as the borrower, to modify terms of the line of credit facility, and to terminate the $5 million revolving line of credit to the FHF; and

WHEREAS, Agency staff has determined that changes to the terms of the credit facility will assist in fulfilling the purposes of Minnesota Statutes, Chapter. 462A;

NOW THEREFORE, BE IT RESOLVED THAT the Agency hereby approves the following:

1. Modification of existing $5 million revolving line of credit to the FHF and existing $15 million line of credit to TCCLB into one $20 million revolving line of credit to TCCLB with allocated sublimits.

2. Allocation of a $10 million sublimit for the purpose of foreclosure remediation lending activities (single family acquisition and construction loans);

3. Allocation of a $10 million sublimit for the purpose of housing-related strategic acquisitions (land banking), interim financing (hybrid loans), and mini-perm lending activities;

4. The allocated sublimits must be able to be terminated separately if there is an event of default under one of them;

5. Termination of the existing $5 million line of credit agreement with the FHF;

6. A new form of Guarantee from the FHF in the amount of $10 million applicable to all of the obligations under the $10 million sublimit for the purpose of housing-related strategic acquisitions (land banking), interim financing (hybrid loans), and mini-perm lending activities;

7. Revision of the loan maturity date to June 30, 2019, with an eligible disbursement period of three years through June 30, 2018 (one year in advance of maturity);

8. TCCLB shall pledge collateral to the Agency, the adequacy of which will be determined by the Agency in its sole discretion;

9. TCCLB shall maintain the following financial covenant ratios:
    a. Net asset ratio of 20% if the outstanding balance on the line of credit is greater than 50%, or 15% if the balance is below 50%
    b. Debt Service Coverage Ratio of at least 1.05
    c. Current Ratio of at least 2.5
    d. Allowance for loan for loan losses of at least 3.5%

NOW THEREFORE, BE IT FURTHER RESOLVED THAT all provisions Resolutions No. MHFA 12-047, 12-025, 12-026, 12-057, 14-044, and 14-053 that are not modified by this resolution remain in force.

Adopted this 28th day of May, 2015.

____

CHAIRMAN

AGENDA ITEM: 6.E.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Community Homeownership Impact Fund Program Procedural Manual Changes

CONTACT: Luis Pereira, 651-296-8276, luis.pereira@state.mn.us
Tal Anderson, 651-296-2198, tal.anderson@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 is hereby requesting Board approval of a revised Community Homeownership Impact Fund (Impact Fund) Program Procedural Manual.

FISCAL IMPACT:
The Impact Fund is primarily funded with State appropriations (Economic Development and Housing Challenge funds), with the main exceptions being interim loans awarded to administrators and funded via the Housing Affordability Fund (Pool 3), and housing infrastructure bond proceeds awarded to community land trust administrators.

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
- Procedural Manual

BACKGROUND
Since 1999, Minnesota Housing has offered the Community Homeownership Impact Fund (Impact Fund) Program through the Single Family Request for Proposals (RFP). Primarily funded with Economic Development and Housing Challenge Program (Challenge) funds, this statewide program awards funds to administrators to address locally-identified needs for affordable, single family, owner-occupied housing activity. The most common uses of the Impact Fund are:

- Grants are awarded to administrators on a limited basis to bridge value gaps that exist between the total development cost and a unit's appraised value, and for other eligible activities where recapture of loan funds prove infeasible or unaffordable;
- Interest-free, 30-year deferred loans are awarded to administrators, and administrators make them available to eligible homeowners to bridge an affordability gap not covered by the first mortgage or other funding sources; and
- Interim loans are awarded to administrators for a variety of purposes, including the acquisition, rehabilitation, demolition and/or construction of owner-occupied housing; interim loans are generally provided at a rate of two percent.

After implementing some minor administrative revisions to the Manual in December 2014, Impact Fund staff has now proposed several administrative updates to existing procedures and policies that either address previous omissions in guidance or reflect current practice. Below is a summary of key proposed changes to the Manual:

<u>Key Administrative Changes to Existing Policies/Procedures</u>

1. **Processing Entity**. In the past, when Administrator capacity or federal or state laws prevented the Administrator from directly administering funds, a Processing Entity was required to administer Impact Fund Dollars on behalf of the Administrator. As part of this relationship, the Processing Entity was required by Minnesota Housing to sign the Funding Agreement, along with the Administrator. In the past round, Minnesota Housing abandoned this practice, electing to enter into a Funding Agreement solely with the Administrator, even while the latter retains a formal partnership (and separate agreement) with a Processing Entity to close Impact Fund deferred loans on its behalf. The proposed language reflects the current practice of bilateral Funding Agreements solely between Minnesota Housing and the Administrator, instead of tri-party Funding Agreements between Minnesota Housing, the Administrator, and the Processing Entity. At the time of the Application for Funds, Minnesota Housing may approve the Administrator to partner with a specific Processing Entity; upon Funding Agreement approval, Minnesota Housing requires the Administrator to enter into a separate contractual relationship with the Processing Entity, if any.
2. **Maximum Housing Ratio**. In May 2014, as part of a substantial update to the Impact Fund Manual, an Affordability Gap Eligibility Policy was implemented that required a Homebuyer's housing ratio (percent of gross income going toward housing costs) of no less than 25% but not to exceed 30%, with a built-in exception for specific programs that serve low-income households to permit a housing ratio of no less than 20%. Since May 2014, staff has approved categorical waivers for three Impact Fund administrators offering Affordability Gap programs to exceed the 30% maximum housing ratio to reflect current underwriting practices in the industry (e.g. FHA-insured mortgages). Edits to the Manual delete the 30% maximum housing ratio but retain the minimum housing ratio (floor of 25% or 20% for certain approved models).

3. **Accommodation Parties**. In the past, an Accommodation Party, i.e. an owner of a property that is not also a borrower, has been permitted on units receiving Impact Fund Dollars. Examples include a non-occupant seller of a home purchased by an Impact Fund Household on contract-for-deed, or an occupant sibling of an Impact Fund borrower that is a property heir but is not a borrower on the property. The edits to the Manual explicitly define an Accommodation Party, and require the Accommodation Party to sign the Impact Fund Deferred Loan Mortgage.
4. **Use of Affordability Gap dollars**. Manual edits refine the list of eligible uses of Affordability Gap dollars. In addition to Affordability Gap to finance the minimum down payment amount required by a Homebuyer's first mortgage, Homebuyer settlement charges, and Affordability gap assistance to a Homebuyer purchasing on Community Land Trust, now the Manual explicitly permits the use of Impact Fund Dollars for additional down payment required by a lender to qualify the Homebuyer for a first mortgage or to bring the Homebuyer's housing ratio in line with program housing ratio requirements.
5. **Contract-for-deed.** For several years, the Impact Fund program has accepted interim financing for purchasing a home on contract-for-deed as an eligible form of homeownership. However, this was not explicitly reflected in the Manual. The Manual's definition of Owner-occupant is revised to explicitly reflect that a Household that purchases a property subject to a contract-for-deed may be considered an eligible Household for purposes of the Impact Fund program.

In addition, staff has also proposed administrative changes to the Required Program Documentation List to reflect federal policy changes.

<u>Procedural Manual Implementation Schedule and Applicability</u>

Following board approval, the proposed new Impact Fund Procedural Manual will go into effect immediately.

Because existing Agreements of open awards with Impact Fund administrators refer to the Procedural Manual as amended, any updated version of a requirement in the Manual will apply to these existing Agreements.

In the event that a requirement that was solely in an existing Agreement conflicts with the amended Manual, the existing Agreement controls.

1.10 Processing Entity

- When the Administrator's capacity or federal/state laws or acts prevent~~s~~ the Administrator from directly ~~administering funds~~originating ~~for the~~ Impact Fund Program loans, a Processing Entity ~~is designated by the Administrator~~may be approved by Minnesota Housing at the time of Administrator's Impact Fund Application for Funds.
- The Processing Entity must enter into a contractual relationship with ~~Minnesota Housing and~~ the Administrator ~~by executing the Agreement~~. Minnesota Housing, however, will hold the Administrator solely responsible for any default under the Fund Availability, Disbursement and Loan/Grant Agreement. ~~This includes, but is not limited to, responsibility for instances of fraud or misrepresentation as well as the requirement to repay the funds if warranted.~~

2.03 Household Affordability Gap Eligibility

The Administrator's Household selection process must include an assessment of the Households' needs for Affordability Gap assistance indicated by the housing-to-income ratio. Generally, a Household eligible for Affordability Gap assistance must spend no less than 25% ~~but no more than 30%~~ of gross monthly income for housing payments. Housing payments include monthly principal and interest on the first mortgage~~, second mortgage principal and interest if any~~ and any subordinate mortgage, any Home Owners Association (HOA) fees ~~if any~~, property taxes, hazard insurance and mortgage insurance.

To serve certain Low Income Households at a lower housing ratio than 25%, an Administrator must establish an Affordability Gap eligibility policy that specifies a lower minimum housing ratio given programmatic goals to promote sustainable homeownership. The lowest minimum housing ratio ~~to be~~ permitted by Minnesota Housing ~~via an~~for Affordability Gap eligibility ~~policy~~ is 20%. ~~percent.~~

Minnesota Housing may, at its sole discretion, waive the ratio requirement for Affordability Gap financing on a case by case basis, when the Administrator provides a written waiver request.

2.07 Impact Fund Eligibility Income

The Administrator may establish income limits for each eligible activity they undertake with Impact Fund Dollars. These limits may not exceed 115% of state or area median income (AMI). The Household's Annualized Gross Income may not exceed levels that would qualify them as Low and Moderate Income Households.

The Annualized Gross Income is the earned or unearned income of the parties in the Household as described below from sources outlined in the list below (not including the exceptions that follow).

Parties Whose Income Must be Included When Calculating Annualized Gross Income
The income of the following persons must be verified and included when calculating Annualized Gross Income for Homebuyers of Qualified Dwelling Units constructed or rehabilitated using Impact Fund Dollars or Homebuyers receiving Impact Fund Affordability Gap assistance:

- Anyone who will have title to the subject property and signs the Mortgage Deed.
- Anyone expected to reside in the subject property and who will be obligated to repay the underlying mortgage loans (signs the Note) but who is not in title to the subject property; i.e. the Co-Signer (not named in title to the subject property and does not sign the Mortgage Deed).
- The legal spouse of the mortgagor who will also reside in the subject property.

The income of the following persons must be verified and included when calculating Annualized Gross Income for Homeowners of Qualified Dwelling Units receiving Impact Fund ~~owner-occupied~~Owner-Occupied rehabilitation assistance:

- Anyone in title to the subject property who ~~has signed the Mortgage Deed~~also resides in the subject property.
- The legal spouse of the mortgagor who also resides in the subject property.

If the mortgagor is legally married and the spouse does not or is not expected to reside in the subject property, the Household file must contain either the Non-Occupant Spouse Statement or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.

Any person whose income must be included in the Annualized Gross Income calculation who receives no income must sign either the Zero Income Statement or another statement indicating he or she receives no income.

Accommodation Parties
An accommodation party is anyone with an ownership interest in an eligible property that is not a Borrower. Examples include but are not limited to a non-borrowing relative, spouse, or heir in title to an eligible property, or a seller of a contract-for-deed to an Owner-Occupant. An accommodation party must sign the Impact Fund Mortgage.

Co-Signers
Co-signers are permitted on first mortgage loans originated for Homebuyers of Qualified Dwelling Units receiving Impact Fund Dollars. Co-signers are not vested in title and may reside in the subject property.

Annualized Gross Income Calculation
Total Annualized Gross Income ~~is calculated using Annualized Gross Income. It~~ includes but is not limited to:

- Base pay, which includes full-time, part-time or seasonal work with regular hours, expressed hourly, weekly or monthly, etc.;
- Variable income, which includes irregular hourly income, income from commissions, overtime and bonuses, income from irregular employment, shift differential, tips, profit sharing, sick pay, holiday pay and vacation pay;
- Self-Employment or Business Income;
- Income from financial assets, trusts or annuities, including but not limited to, dividends, royalties and interest earned from non-retirement accounts;
- Government Transfer Payments, including retirement benefits, disability benefits, medical benefits, social security benefits, pensions, veterans' benefits, workers' compensation, public assistance, unemployment benefits, federal education and training assistance and income maintenance benefits;
- Insurance or benefit payments, such as long-term care insurance, disability insurance, pensions or death benefits;
- Net rental income from investment property;
- Contract-for-deed interest income;
- Child and/or spousal support payments;
- Regular cash contributions;
- Employer-paid allowances such as housing, automobile, cell phone, etc.;
- Flexible benefit cash;
- Custodial account income;
- Estate income; and
- Other sources of income not specifically excluded below.

The following types of income are excluded from the Annualized Gross Income calculation:

- Income no longer available;
- One-time (non-recurring) income; for example, income received once that does not have a history and is unlikely to reoccur in the future;
- Income generated by IRA, VIP, 403(b), and 401(k) accounts;
- Food stamps, Meals on Wheels, contributions of food;
- Government-paid child care which is paid directly to the provider;

- Foster care income;
- Educational scholarships, grants, loans or tuition reimbursement;
- Earned Income Tax Credit refund payments;
- Potential roommate income or rental income of future duplex or accessory dwelling unit;
- Court-ordered child or spousal support not received;
- 529 plans;
- Custodian accounts where someone other than the parents are named as custodian;
- Unearned income of adult dependents; and
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements
  - Lottery winnings
  - Gambling winnings
  - Capital gains
  - Liquidation of assets
  - Settlements for personal loss.

4.06 Affordability Gap

All required program documentation that must be included in the Project file is listed in Appendix C, Sections B and C3. See also Section C5 (if applicable).

Funds awarded for Affordability Gap must be approved by Minnesota Housing for one or more of the following specific uses:

- Minimum d~~D~~own payment ~~assistance~~ amount required by a~~for a~~ Homebuyer's first mortgage;
- ~~Closing costs associated with a Homebuyer's first mortgage~~Homebuyer's settlement charges;
- ~~Prepaid finance charges associated with a Homebuyer's first mortgage~~If additional downpayment is required for a Homebuyer to qualify for the first mortgage;
- If additional downpayment is required for a Homebuyer's housing ratio to meet the program ratio requirements for Affordability Gap financing. (See Section 2.03 of this Procedural Manual.);
- Long-term (30+ years) subsidy tied to real property; and/or
- Other Affordability Gap assistance to a Homebuyer as approved by Minnesota Housing.

If Minnesota Housing awards to an Administrator Impact Fund Dollars in the form of interest-free Deferred Loan funds to finance Affordability Gap for eligible Homebuyers, all requirements of Chapter 6, Part 1, Deferred Loans – Challenge Proceeds, apply.

If Minnesota Housing awards and Administrator Impact Fund Dollars in the form of Grant funds to operate an Affordability Gap financing program for eligible Homebuyers, all requirements of Chapter 7, Grants, apply.

~~For Impact Fund-supported programs that provide Affordability Gap financing to buyers who may obtain an FHA-insured first mortgage, the FHA must approve the program. In order to obtain FHA approval, the Administrator's program must require use of the Department of Housing and Urban Development (HUD)-determined maximum eligible income limits for secondary financing of 115% of area median income adjusted by family size.~~

HUD must approve nonprofit Administrators of the Impact Fund that provide secondary financing and/or Affordability Gap to an eligible homebuyer who has or will have an FHA-insured first mortgage. In addition to being approved by HUD, the nonprofit must be listed on HUD's Nonprofit Organization Roster.

Appendix A: Definitions

TERM	DEFINITION
~~Owner-Occupant~~ Owner-Occupant	A Homeowner or Household whose income does not exceed 115% of state or area median income (AMI) as adjusted from time to time by the US Department of Housing and Urban Development and as listed on Minnesota Housing's website. An ~~Owner-Occupant~~Owner-Occupant must own the Qualified Dwelling Unit and use it as their Principal Residence. A Household that has purchased a property subject to a contract-for-deed is considered an Owner Occupant.
Processing Entity	A Minnesota Housing approved lender who ~~partners~~ enters into a contract with an Administrator to process Impact Fund awards. ~~that is required when federal or state laws or acts or Administrator capacity prohibit an Administrator from directly administering Impact Fund Dollars.~~

Minnesota Housing Finance Agency

AGENDA ITEM: 6.F
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Carlson Crossing Townhomes, Saint Joseph (D1499)

CONTACT: Marty McCarthy, 651-284-3178
marty.p.mccarthy@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:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $1,163,000 and a deferred funding commitment in the amount of $625,000 under the Flexible Financing for Capital Costs (FFCC) program, both subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2015 Affordable Housing Plan (AHP), the Board allocated $85 million in new activity for the LMIR program which includes $35 million from the Housing Investment Fund (Pool 2) and $50 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated $4.5 million in new activity under the FFCC program (funded through the Housing Affordability Fund – Pool 3). 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 $29,050 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):
- Background
- Development Summary
- Resolution

Background

The Minnesota Housing Finance Agency (Agency) Board, at its October 23, 2014, meeting, approved this development for processing under the under the Low and Moderate Income Rental (LMIR) and the Flexible Financing for Capital Costs (FFCC) programs. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**	**COMMITMENT**	**VARIANCE**
Total Development Cost	$ 4,251,875	$ 4,348,708	$ 96,833
Agency Sources:			
LMIR	$ 1,110,000	$ 1,163,000	
	$ 53,000		
FFCC	$ 625,000	$ 625,000	0
Non-Agency Sources:			
Tax Credit Equity $ 2,361,806			
$ 2,365,766			
	$ 3,960		
Interim Income	$ 13,000	$ 38,550	$ 25,550
General Partner Loan	$ 100,467	$ 104,845	$ 4,378

Gross Rents:

Unit Type	**# of DU**	Rent	**# of DU**	Rent	**# of DU**	**Rent**
2 BR – Section 8	25	$784	25	$784	0	$0
2 BR – Section 8 (Handicapped unit)	1	$757	1	$757	0	$0
3 BR – Section 8	10	$735	10	$735	0	$0
Total Number of Units	**36**		**36**			

Factors Contributing to Variances:

- The total development cost increased by $96,833. Some costs increased and some items were added that were not in the original budget. Costs changed in the following areas by the following amounts: construction costs $7,600, developer fee $23,300, financing costs $8,383, syndicator/investor fees ($13,200). The most significant increase was the Agency required capitalized replacement reserves of $67,150. See below for further detail on the replacement reserve requirement.

- Net Operating Income increased by $3,000 annually based on the reduction of the Maintenance contract with Brutger Equities, the property manager. With an increase in NOI, the project is able to sustain a higher mortgage than originally approved through selections. The new mortgage will be $1,163,000, an increase of $53,000 since selection. There is no change to the deferred FFCC loan.

Other significant events since Board Selection:

- The construction bid was approximately $500,000 more than proposed at selection. The developer and contractor value-engineered the proposed improvements and they were able to reduce costs to conform to the original construction budget. The Agency architect has reviewed and approved the value-engineered scope of work and the assessment of future capital needs. This capital needs assessment allowed Agency staff to properly size a capitalized replacement reserve of $67,150 on top of the $450 in annual replacement reserves. The reserve amount was determined by forecasting the total reserve necessary to provide a positive replacement reserve balance for a minimum of 15 years.

DEVELOPMENT SUMMARY

Name:	Carlson Crossing Townhomes (fka Cloverdale Townhomes) M16746			App#:	D1499
Address:	904 Baker Street East				
City:	Saint Joseph	County:	Stearns	Region:	CMIF

MORTGAGOR:

Ownership Entity: Carlson Crossing Townhomes of St. Joseph Limited Partnership
General Partner/Principals: Carlson Crossing Townhomes LLC, whose managing member is Central Minnesota Housing Partnership, Inc.

DEVELOPMENT TEAM:

General Contractor:	Lumber One, Avon
Architect:	Blumentals Architecture Inc, Minneapolis
Attorney:	Rinke Noonan, Saint Cloud
Management Company:	Brutger Equities Inc., Saint Cloud
Service Provider:	Tri-County Action Program Inc., Waite Park

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$1,163,000	LMIR First Mortgage	
	Funding Source:	Housing Invest Fund (Pool 2)
	Interest Rate:	5.25%
	MIP Rate:	0.25%
	Term (Years):	30
	Amortization (Years):	30

$625,000	Flexible Financing Cap Costs	
	Funding Source:	Hsg Affordability Fund(Pool 3)
	Interest Rate:	0.00%
	Term (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
2BR**	25	1,364	$ 735	$ 891	$ 29,400
2BR	1	1,011	$ 757	$ 891	$ 30,280
3BR	10	1,746	$ 784	$ 1,028	$ 31,360
TOTAL	36				

NOTES: **All units are Section 8.**

***Under the LMIR and Housing Tax Credit programs, rents are affordable to households at 50% Area Median Income (AMI) with incomes up to 60% AMI.

**4 units will serve long-term homeless (LTH) households

Purpose:

Central Minnesota Housing Partnership Inc. (CMHP) will acquire and rehabilitate the 36 unit Carlson Crossing Townhomes (fkaCloverdale Townhomes), which has a current Section 8 HAP contract. The property consists of six buildings, each with six rental units. The exterior of the buildings are vertical wood siding with vinyl windows and metal doors. There are 25 two-bedroom units, 10 three-bedroom units and one two-bedroom handicapped accessible unit. All are two stories with unfinished basements, with the exception of the handicap accessible unit. The property has one detached two-car garage and two detached five-car garages, as well as surface parking spaces. The property is general occupancy with a family population being served. The project will also include four units for long term homeless housing. This proposal meets the Preservation Priority due to High Risk of Loss due to Necessary Change in Ownership.

Target Population:
The targeted population includes households of color, single heads of households with children and all units will be reserved for tenants at or below 60% of AMI. The targeted populations for LTH households are families and individuals with multiple barriers to permanent housing including, but not limited to poor rent history, poor credit history/financial history and incomes below 60% of AMI. This may include survivors of domestic violence, veterans and individuals completing a treatment program. This development will preserve 36 affordable apartments in the city of Saint Joseph. The market study indicates that there is demand for this type of housing.

Project Feasibility:
The development is feasible and is recommended for funding based on a slight modification to the request. After fully reviewing this project with their management company, the developer was able to reduce costs associated with maintenance. The first 1st mortgage amount was able to increase to $1,163,000 with this increase in annual income available for debt service. There has been no change to the amount of the deferred loan of $625,000 or tax credits of $282,851. Based on the projected income and expenses the development cash flows and is consistent with program underwriting guidelines.

Total development costs of $120,797 per unit is within 125% of the Predictive Model of $159,148 per unit.

Development Team Capacity:
The proposed development aligns with CMHP's purpose and strategic goals. CMHP has completed 518 units in 18 developments that are of similar size and scope of the proposed development. The development team is sufficient to ensure completion of the proposed development. Brutger Equities, Inc., was established in 1990. Staff has the training and certifications needed to provide for successful property mgmt. Their portfolio is a mix of section 8, tax credits, and market rate. The majority of the developments are located in Minnesota but they do have several in South Dakota and North Dakota.

Physical and Technical Review:
The original site inspection was conducted by Minnesota Housing staff on June 20, 2014 and the Agency architect has reviewed and approved current renovation scope of work. The proposed rehab scope of work appears to be reasonable given the age and condition of the property. Critical needs include siding, driveways, balance of roofing and windows. Repair to mechanical systems include plumbing, lighting and HVAC equipment. Additional work includes exterior doors, appliances, water heaters and flooring.

Market Feasibility:
According to Minnesota Housing's community profile, between 2003 and 2013, the of Saint Joseph gained 1,626 people, 592 households and 299 jobs. The median income is $57,528 median rent is $731 and 68.8% of lower income renters are cost burdened. The area has a 6.2% poverty rate and 3.9% unemployment rate. The average vacancy rate for subsidized housing is 7.6% in the County. The property is within five miles of St. Cloud, which offers a large number of manufacturing, healthcare, retail and education jobs.

Supportive Housing:
Tri-County Action Program is the service provider, utilizing a Housing First model. The service provider is a longstanding provider in the community and has recent experience with households who are at-risk of or experiencing homelessness. Referrals will be obtained from Tri-CAP and their relationships with the VA, county services and local shelters. Services provided will include case management, housing/tenancy supports, referrals to other agency resources and community providers. Project-based Section 8 will be used to maintain rent affordability on all units (Section 8 HAP contract expires in 2020).

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$4,348,708		$120,797
Acquisition or Refinance Cost	$1,550,000		$43,056
Gross Construction Cost	$1,741,000		$48,361
Soft Costs (excluding Reserves)	$869,558		$24,154
Non-Mortgageable Costs and Reserves	$188,150		$5,226
Total LMIR Mortgage	$1,163,000		$32,305
First Mortgage Loan-to-Cost Ratio		27%	
Agency Deferred Loan Sources			
Flexible Financing Cap Costs	$625,000		$17,361
Total Agency Sources	$1,788,000		$49,666
Total Loan-to-Cost Ratio		42%	
Other Non-Agency Sources			
Interim Income	$38,550		$1071
General Partner Loan	$104,845		$2,912
Syndication Proceeds*	$2,375,711		$65,991
Sales Tax and Energy Efficient Rebate	$41,602		$1,156
Total Non-Agency Sources	$2,560,708		$71,130

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

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low- and moderate-income, as follows:

Name of Development:	Carlson Crossing Townhomes
Sponsors:	Carlson Crossing Townhomes of St. Joseph Limited Partnership
Guarantors:	Central Minnesota Housing Partnership
Location of Development:	Saint Joseph
Number of Units:	36
General Contractor:	Lumber One, Avon
Architect:	Blumentals Architecture Inc., Minneapolis
Amount of Development Cost:	4,348,708
Amount of LMIR Mortgage:	$1,163,000
Amount of FFCC Loan:	$625,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) and the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $1,163,000; and

2. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30-year amortization; and

3. The term of the permanent LMIR loan shall be 30 years; and

4. The amount of the FFCC deferred loan shall be $625,000; and

5. Repayment of the FFCC loan shall be deferred, with interest at 0 percent, and the loan term shall be co-terminus with the LMIR loan; and

6. The Combined LMIR and FFCC End Loan Commitment shall be entered into on or before November 30, 2015 and shall have an 18 month term (which shall also be the LMIR and FFCC Commitment Expiration Date); and

7. Agency staff shall review and approve the Mortgagor; and

8. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

9. Central Minnesota Housing Partnership shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

10. Central Minnesota Housing Partnership shall guarantee the mortgagor's payment under LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

11. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 28th day of May, 2015.

____

CHAIRMAN

AGENDA ITEM: 6.G
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Resolution Ratifying Execution and Delivery of Amendments to Standby Bond Purchase Agreements with the Royal Bank of Canada and Fee Letters

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:
Staff requests the board ratify the amendments to standby bond purchase agreements (liquidity facilities) and related fee letters with the Royal Bank of Canada (RBC), which are expiring in July, to extend the term and make certain amendments. Section 1 of the attached resolution provides additional background information.

FISCAL IMPACT:
RBC has extended its current facility, providing approximately $38 million of liquidity at an annual fee of 0.40% for a one-year extension (for one series of bonds) and 0.50% for a three-year extension (for two series of bonds). Each of the current RBC facilities has an annual fee of 0.65%. The fiscal impact, factoring in scheduled annual reductions in liquidity requirements, will be to increase the Agency's spread income from the Residential Housing Finance Bonds that are secured by these standby bond purchase agreements by approximately $97,000 over the terms of the extended facilities.

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

Board Agenda Item:
Attachment: Resolution

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

RESOLUTION NO. MHFA 15-

RESOLUTION RATIFYING EXECUTION AND DELIVERY OF AMENDMENTS TO STANDBY BOND PURCHASE AGREEMENTS WITH THE ROYAL BANK OF CANADA

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

Section 1. Recitals. The Agency has issued and there are outstanding variable rate demand obligations entitled Residential Housing Finance Bonds, 2003 Series B, 2003 Series J and 2004 Series G (the “Outstanding Bonds”). The payment of the purchase price on the Outstanding Bonds when subject to an optional or mandatory tender by the owners thereof is secured by standby bond purchase agreements (as heretofore or hereafter amended or supplemented, the “RBC Standby Bond Purchase Agreements”) provided by the Royal Bank of Canada (“RBC”). The RBC Standby Bond Purchase Agreements, as originally executed, expire by their terms on July 17, 2015. At the request of the Agency, RBC has entered into a First Amendment to each of the RBC Standby Bond Purchase Agreements extending the terms thereof, for an additional year with respect to the 2004 Series G Outstanding Bonds and for three additional years with respect to the 2003 Series B and 2003 Series J Outstanding Bonds. In addition, RBC has reduced the liquidity facility fees and has made certain other changes regarding repayment of purchased bonds which were requested by the Agency.

Section 2. Approval of Amendments to RBC Standby Bond Purchase Agreements and Fee Letters. The authorization, execution and delivery of each First Amendment to the RBC Standby Bond Purchase Agreements, as described in Section 1, and each related Amended and Restated Fee Letter, by the Chief Financial Officer, in the name and on behalf of the Agency, are hereby ratified as authorized and valid agreements of the Agency. Any of the Commissioner, the Chief Financial Officer or the Finance Director is further authorized to execute and deliver any other agreements or documents necessary or convenient in connection with the performance and administration of the RBC Standby Bond Purchase Agreements, including extensions and amendments thereof consistent with the Series Resolutions of the Agency relating to the Outstanding Bonds.

Adopted this 28th day of May, 2015

____
CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 7.A
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2015 Series A

CONTACT: Rob Tietz, 651-297-4009 Susan Thompson, 651-296-9838
rob.tietz@state.mn.us susan.thompson@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 a bridge loan to Parkview Limited Partnership for the Parkview Villa project. 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 transaction will result in the Agency earning approximately a 1% 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)
- Resolution (provided under separate cover)

AGENDA ITEM: 7.B
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2015 Series B

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

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)

☑ Other: Finance

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff is preparing to issue bonds to provide a bridge loan to CB Cathedral Hill Limited Partnership for Cathedral Hill. 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 transaction will result in the Agency earning approximately a 1% 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)
- Resolution (provided under separate cover)

AGENDA ITEM: 7.C.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Selections, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)

CONTACT: Ruth DuBose, 651-297-3128 ruth.hutchins@state.mn.us
Tal Anderson, 651-296-2198 tal.anderson@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 Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity) pilot is designed to expand the efforts of organizations that currently provide intensive financial empowerment and homeownership training. The goal of this initiative is to increase the probability of successful homeownership among emerging markets (i.e. households of color or Hispanic ethnicity) and low-income individuals, and to address the homeownership gap between white/non-Hispanic and households of color or Hispanic ethnicity. Staff is hereby requesting board approval of $650,000 in funding recommendations for the second year of the pilot program.

FISCAL IMPACT:
The Homeownership Capacity Program uses Pool 3 funds budgeted in the 2015 Affordable Housing Plan.

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
- Proposed Homeownership Capacity Provider Coverage Map

BACKGROUND

The Homeownership Capacity Program Concept was approved at the April 2014 Board meeting. As noted in the Program Concept, financial empowerment topics include, but are not limited to:

- Asset building (i.e. savings, retirement plans, home ownership, higher education, etc.)
- Credit report education, repair and re-building
- Development of spending plans, including discussion of financial best practices
- Consumer protection training and education (i.e. banks, credit unions, insurance companies, predatory financial scams, and identity theft)
- Filing taxes

In July 2014, the Board approved funding in the amount of $650,000 for seven (7) agencies under the first year of the pilot.

A request for proposal (RFP) was released and applications were submitted in late March for funding under the second year of the pilot. In the RFP, applicants addressed the following:

- The target service area and target demographic the applicant will serve as well as the approach to securing client participation;
- The number of clients that will be served and the capacity of the applicant to meet the demand;
- The role of the coach and client;
- The anticipated average length of time the applicant will work with clients;
- How HomeStretch or Framework will be integrated into the program design;
- Training of those providing Homeownership Capacity services; and
- Outreach efforts to ensure applicants are attracting potential clients that fall within the program parameters.

Each proposal was reviewed and evaluated by two Minnesota Housing Single Family program staff members. Proposals were then presented to a selection committee made up of staff from throughout the Agency. Proposals were scored pursuant to the criteria summarized above.

Discussion

Agency staff are recommending the top 10 applicants as scored by the scoring committee for funding:

Organizations Funded in 2014 and Recommended for Funding in 2015	
Organization	**Funding Amount**
Build Wealth	$200,000
Comunidades Latinas Unidas En Servicio (CLUES)	$65,000
Hmong American Partnership (HAP)	$20,000
Neighborhood Development Alliance (NeDA)	$93,500
Project for Pride in Living (PPL)	$80,000
Three Rivers Community Action Partnership	$75,000
TOTAL	**$533,500**

New Organizations Recommended for Funding in 2015	
Organization	**Funding Amount**
Mankato Economic Development Authority	$6,500
NeighborWorks Home Partners	$50,000
Southwest Minnesota Housing Partnership (SWMHP)	$40,000
White Earth Investment Initiative	$20,000
TOTAL	**$116,500**

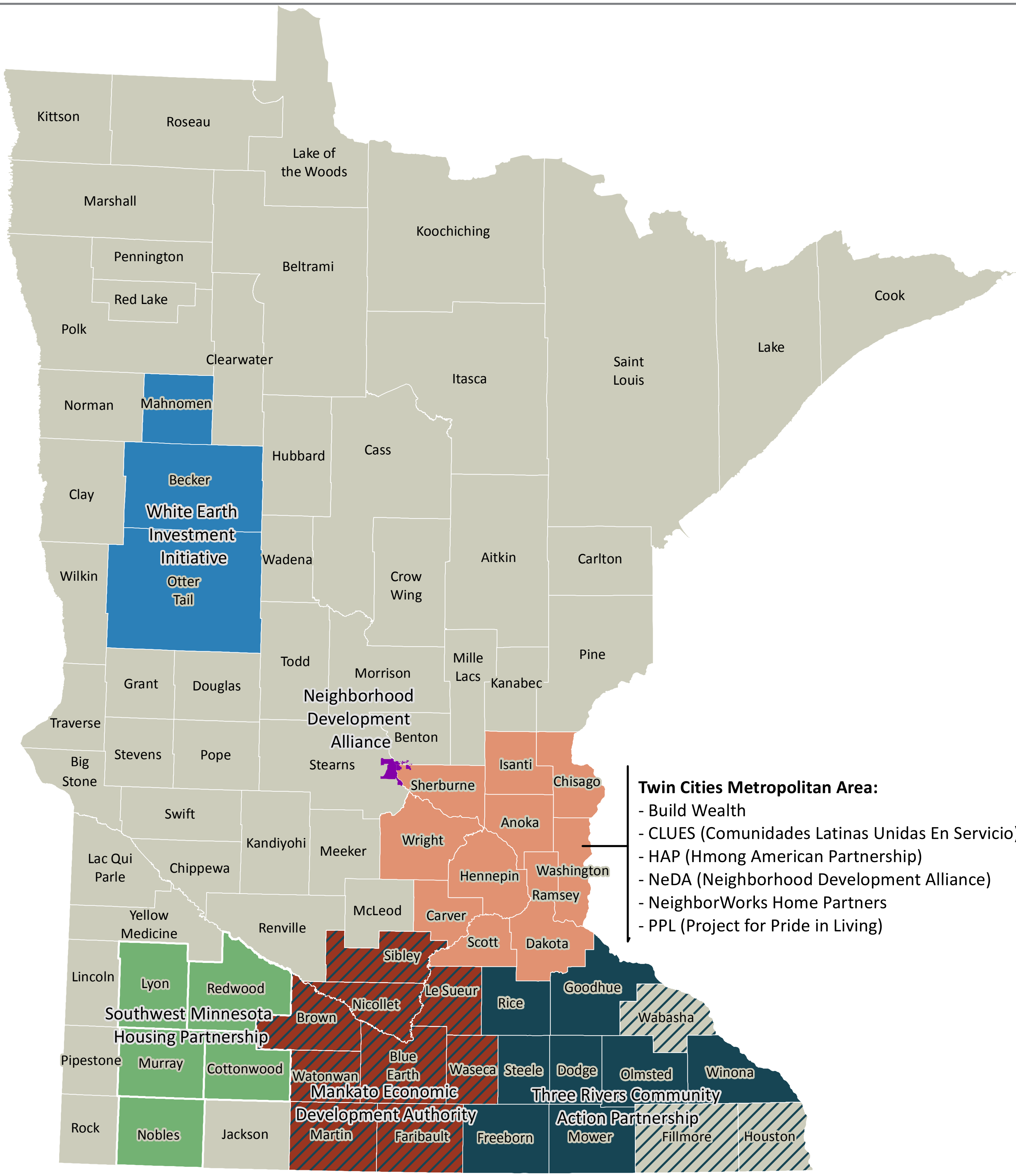
GRAND TOTAL	**$650,000**

The Agency also received non-recommended applications from the following organizations: Community Action Partnership of Suburban Hennepin (CAPSH), Minneapolis Urban League, and Twin Cities Habitat for Humanity (TCHFH).

The 10 recommended organizations expect to serve 600 households with this Homeownership Capacity funding. With these 10 applicants, the Agency would serve a diverse group of low-income renters and emerging market communities in the Twin Cities Metropolitan Area and Greater Minnesota. Funds for the eligible activities listed in the Program Concept will be made available for a period of 12 months from October 1, 2015 – September 30, 2016.

With another six months until the initial phase of the pilot is complete, 336 households have already committed to this program. In the second phase of the pilot, evaluation of the program will continue to be both quantitative and qualitative. A standard set of data collection items used to demonstrate client progress towards goal and post-goal achievement outcomes will be defined and required for reporting under Homeownership Capacity.

Proposed Homeownership Capacity Provider Coverage



- Neighborhood Development Alliance
- White Earth Investment Initiative
- Three Rivers Community Action Partnership
- Three Rivers Community Action Partnership - phone only
- Southwest Minnesota Housing Partnership
- Mankato Economic Development Authority
- Twin Cities Metropolitan Area

0 20 40 Miles

Minnesota Housing Finance Agency

Source: Minnesota Housing Date Printed: 05/13/15

Minnesota Housing Finance Agency

AGENDA ITEM: 7.D.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Funding Recommendations, Family Homeless Prevention and Assistance Program (FHPAP)

CONTACT: Diane Elias, 651-284-3176
diane.elias@state.mn.us

Joel Salzer, 651-296-9828
joel.salzer@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

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

☐ Other: ______________________________

ACTION: Resolution

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests adoption of the attached resolution authorizing $17,186,642 in Family Homeless Prevention and Assistance Program (FHPAP) funds. This amount includes new appropriations as wells as carryforward funding. This will allow Minnesota Housing to (1) execute contracts with twenty grantees to provide support services and direct assistance throughout the state, (2) provide incentive for communities to leverage mainstream resources, (3) provide incentive for communities to improve their administrative capacity and (4) maintain and enhance database management, reporting and program evaluation.

FISCAL IMPACT:
The requested FHPAP funds are state appropriations and therefore do not adversely impact the agency's financial position. Funds in the amount of $17,038,000 have been approved by the Minnesota Legislature for a biennial period which begins July 1, 2015 and ends June 30, 2017.

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
- Funding Chart
- Resolution

Background:

The 1993 Minnesota Legislature established the Family Homeless Prevention and Assistance Program (FHPAP) to assist families who were homeless or at imminent risk of homelessness. The 1995 Minnesota Legislature expanded eligibility for the FHPAP program to include single adults and youth. The legislation requires that FHPAP grantees develop and utilize an advisory committee to ensure project design, implementation and evaluation is reflective of local need. The program goals are to prevent homelessness, minimize periods of homelessness and eliminate repeat episodes of homelessness.

Through a local needs assessment process, FHPAP projects must identify and develop innovative solutions to improve the comprehensive homeless response system. The FHPAP grantees provide specialized support services including case-management, as well as provide direct assistance for housing needs such as short-term rent assistance, security deposits, utility assistance and transportation assistance to improve housing stability. The FHPAP program is projected to serve more than 15,000 unduplicated households statewide in the current biennium which ends June 30, 2015.

The Multifamily Division of Minnesota Housing (Agency) issues the FHPAP Request for Proposals (RFP) biennially. The Agency released the RFP on January 29, 2015 with an application deadline of March 13, 2015. Twenty proposals were received in response to the RFP. Nineteen were prior grantees who had received funds in State Fiscal Year (SFY) 2014-15 and the remaining application was from a community that had received funds in SFY 2012-13. Approval of the funding request will allow for FHPAP coverage of the entire state which was achieved for the first time in SFY 2014-15.

Six proposals were from the Twin Cities metropolitan area (encompassing all seven counties) and fourteen proposals were from greater Minnesota areas. The total amount requested was $19,152,065. The funding amount for FHPAP is $17,186.642, which includes anticipated carry over funds from SFY 2014-15.

Staff proposes to maintain the funding distribution where 55 percent of the funds are allocated for the Twin Cities seven-county metropolitan area and 45 percent of the funds are allocated to the balance of state. Funds have been distributed on this basis since 1997. Staff completed an analysis of each grantee's regional needs based on indicators of (1) extreme housing burden for renters, (2) poverty rates and (3) unemployment rates, and have determined that the 55/45 split remains a fair distribution.

Various state agency staff reviewed proposals and met on April 14, 2015 to recommend applicants for funding. Reviewers included representatives from the Department of Human Services (DHS) Office of Economic Opportunity, the DHS Community Living and Supports, the DHS Office of Indian Policy, the DHS Alcohol and Drug Abuse Division, the Department of Education, the Department of Corrections and Minnesota Housing staff.

Applicants were evaluated on four categories: (1) Planning, (2) Project Design, (3) Evaluation and Budget and (4) Program Capacity and Performance. Staff also conducted a risk mitigation review on each applicant to ensure financial capacity.

The FHPAP statute also requires the agency to demonstrate how existing resources can be more effectively coordinated and leveraged to meet program objectives. Historically, a portion of the FHPAP funds have been reserved to address statewide system barriers. Past FHPAP initiative projects have included creating a tenant education curriculum and creating an online affordable housing search engine. For SFY 2016-17, we propose to utilize a portion of FHPAP funds ($362,614) for the following three initiatives:

First, funding will be utilized to create an incentive for grantees to leverage other public funding sources, especially emergency and financial assistance programs, to be disbursed with FHPAP resources. Mainstream emergency and financial assistance programs are significantly larger than FHPAP and can often be used for similar purposes, but too often are administered separately from and without coordination with FHPAP. A total of $149,500 will be made available for this purpose. Grantees would be eligible for additional FHPAP funds if they could demonstrate a letter of commitment from a mainstream benefits, such as emergency assistance funds or Temporary Assistance for Needy Families (TANF), that would specify the funds would be administered jointly with FHPAP.

Second, funding will be utilized to provide assistance for grantees to increase administrative capacity through training and technology. Many grantees require strong communication networks due to serving large communities but lack the technology to do so. In addition, some grantees require training or technical assistance for their staff in order to further develop skills to administer state funds, develop reports, conduct planning and coordinate with community partners. Funds in the amount of $63,114 will be available to assist grantees which are identified as needing this assistance.

Third, staff will utilize $150,000 for HMIS support, including database management, reporting and program evaluation.

Staff recommends approval of the resolution to approve selection and commitment of the Family Homeless Prevention and Assistance Program (FHPAP) funds.

Family Homeless Prevention and Assistance Program

Applicant	2014-15 Award	2016-17 Request	2016-17 Recommendation	Counties in Applicant Service Area
Anoka County	$ 330,000	$ 550,000	$ 550,000	Anoka
Carver and Scott Counties	$ 332,750	$ 400,000	$ 372,550	Carver and Scott
Dakota County	$ 282,100	$ 381,000	$ 303,576	Dakota
Hennepin County	$ 4,004,500	$ 4,500,000	$ 4,222,305	Hennepin
Ramsey County	$ 3,215,050	$ 3,560,000	$ 3,494,759	Ramsey
Washington County	$ 311,300	$ 373,555	$ 324,848	Washington
Metro Subtotals	**$ 8,475,700**	**$ 9,764,555**	**$ 9,268,038**	
Metro Percent of Grantee Total - 55%				

Applicant	2014-15 Award	2016-17 Request	2016-17 Recommendation	Counties in Applicant Service Area
Bi-County Community Action Programs, Inc.	$ 380,000	$ 518,520	$ 413,060	Beltrami , Cass
Blue Earth County (Region 9)	$ 550,000	$ 630,992	$ 597,850	Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca and Watonwan
Catholic Charities (Central Minnesota)	$ 310,500	$ 356,595	$ 303,762	Benton, Sherburne, Stearns, and Wright
Heartland Community Action Agency	$ 500,000	$ 560,595	$ 560,595	Kandiohi, McLeod, Meeker, and Renville, Yellow Medicine, Chippewa, Lac Qui Park, Big Stone, Swift
Kootasca Community Action, Inc.	$ 441,900	$ 486,090	$ 465,935	Cook, Itasca , Koochiching, and Lake
Lakes & Pines Community Action Council, Inc.	$ 674,100	$ 1,004,904	$ 696,109	Aitkin, Carlton, Chisago, Isanti, Kanabec, MilleLacs, and Pine
Lakes & Prairies Community Action Council, Inc.	$ 528,000	$ 878,292	$ 596,894	Clay and Wilkin
Lutheran Social Services	$ 825,000	$ 998,304	$ 860,904	Todd, Crow Wing, and Morrison
Mahube-Otwa Community Action Partnership Inc.	$ 624,000	$ 720,000	$ 685,071	Becker, Mahnomen, Hubbard, Otter Tail, and Wadena
Three Rivers Community Action (Southeast MN)	$ 714,000	$ 908,332	$ 776,118	Dodge, Freeborn, Fillmore, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona
St. Louis County	$ 627,750	$ 1,024,836	$ 689,188	St. Louis
Tri-Valley Opportunity Council	$ 370,000	$ 420,000	$ 386,102	Polk, Marshall, Norman, Pennington, Red Lake, Clearwater, Kittson, Roseau and Lake of the Woods
West Central Minnesota Community Action	$ 167,400	$ 465,000	$ 172,866	Grant, Pope, Stevens, Traverse and Douglas Counties
Western Community Action	$ 323,400	$ 415,050	$ 351,536	Lincoln, Lyon, Jackson, Cottonwood, Redwood, Pipestone, Murray, Rock, and Nobles
Greater Minnesota Subtotals	**$ 7,036,050**	**$ 9,387,510**	**$ 7,555,990**	
Greater Minnesota Percent of Grantee Total - 45%				

Greater and Metro Totals	**$ 15,511,750**	**$19,152,065**	**$ 16,824,028**	

Initiative Funding	2014-15 Award	2016-17 Request	2016-17 Recommendation
HMIS Shelter Bed Coverage	$ 152,800	$ -	$ -
Leverage Incentive	$ -	$ -	$ 63,114
Administrative Capacity	$ -	$ -	$ 149,500
HMIS Support	$ 150,000	$ -	$ 150,000
Initiative Funding Subtotals	**$ 302,800**	**$ -**	**$ 362,614**

FHPAP Total Uses	**$ 15,814,550**		**$ 17,186,642**

FHPAP Sources	2014-15		2016-17
Legislative Appropriations	$ 15,724,000		$ 17,038,000
Prior Year Carryforward	$ 95,750		$ 148,642

Total Funds Available	**$ 15,819,750**		**$ 17,186,642**

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

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING SELECTION/COMMITMENT FAMILY HOMELESSNESS PREVENTION AND ASSISTANCE PROGRAM (FHPAP)

WHEREAS, the Minnesota Housing Finance Agency (Agency) will (1) execute new contracts with 20 existing grantees to provide support services and direct assistance across the entire state; (2) incentivize coordination of FHPAP and mainstream resources; (3) increase administrative and technical capacity; and (4) maintain and enhance database reporting and evaluation from July 1, 2015, through June 30, 2017; and

WHEREAS, the Agency staff has reviewed the applications and determined that they are in compliance with the Agency's rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into grant agreements using state and Agency resources as set forth below, subject to changes allowable under Agency and Board policies:

1. The Agency staff shall review and approve the recommended Grantees for up to the total recommended amount for the grant period of July 1, 2015 through June 30, 2017:

Applicant	2016-17 Award
Anoka County	$ 550,000
Bi-County Community Action Programs, Inc.	$ 413,060
Blue Earth County (Region 9)	$ 597,850
Carver and Scott Counties	$ 372,550
Catholic Charities (Central Minnesota)	$ 303,762
Dakota County	$ 303,576
Heartland Community Action Agency	$ 560,595
Hennepin County	$ 4,222,305
Kootasca Community Action, Inc.	$ 465,935
Lakes & Pines Community Action Council, Inc.	$ 696,109
Lakes & Prairies Community Action Council, Inc.	$ 596,894
Lutheran Social Services	$ 860,904
Mahube-Otwa Community Action Partnership Inc.	$ 685,071
Ramsey County	$ 3,494,759
St. Louis County	$ 689,188
Three Rivers Community Action (Southeast MN)	$ 776,118
Tri-Valley Opportunity Council	$ 386,102

Applicant (continued)	2016-17 Award
Washington County	$ 324,848
West Central Minnesota Community Action	$ 172,866
Western Community Action	$ 351,536
Grantee Funding Total	**$ 16,824,028**

Initiative Funding	2016-17 Award
Leverage Incentive	$ 63,114
Administrative Capacity	$ 149,500
HMIS Support	$ 150,000
Initiative Funding Subtotals	**$ 362,614**

FHPAP Total Funding	**$ 17,186,642**

2. The issuance of grant agreements in form and substance acceptable to the Agency staff and the closing of the individual grants shall occur no later than six months from the adoption date of this Resolution; and

3. The sponsors and such other parties shall execute all such documents relating to said grant and to the security therefore as the Agency, in its sole discretion, deems necessary.

Adopted this 28th day of May, 2015

____

CHAIRMAN

AGENDA ITEM: 7.E
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Bridges Rental Assistance Program

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 the adoption of the attached Resolution authorizing awards of $5,914,000 in Bridges funding and $529,000 in Ending Long Term Homelessness Fund (ELHIF) funding to be administered through the Bridges Rental Assistance program. This amount includes both new appropriations as well as carryforward funding. This will renew sixteen Bridges grants, and six Bridges ELHIF grants, providing up to 24 months of funding from July 1, 2015 through June 30, 2017 to serve an estimated 523 households each month.

FISCAL IMPACT:
Bridges funding is a state appropriated resource and committing these funds does not have an adverse impact on the Agency's financial position. Funds in the amount of $5,676,000 have been approved by the Minnesota Legislature for the biennial period of July 1, 2015 through June 30, 2017.

The recommended funding amount under ELHIF is available in the current Affordable Housing Plan (AHP) and has not been identified for any other purpose.

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
- Bridges and ELHIF Funding Recommendations
- Resolution

BACKGROUND:

Bridges aims to maintain and foster the integration of persons with serious mental illness into their communities through a partnership of housing subsidy with mental health supportive services.

Bridges began in 1991 as a housing initiative for persons with serious and persistent mental illness at the Minnesota Department of Human Services (DHS). In 1993, Minnesota Legislature authorized and appropriated funds to Minnesota Housing under provisions of Minnesota Statutes Section 462A.2097 to operate a rental assistance program for persons with mental illness. In 2005, the Agency Board authorized and appropriated funds from ELHIF to be administered through the Bridges Program, with a provision that households assisted with ELHIF meet both the Bridges Program Requirements and the definition of long-term homelessness. In 2009, DHS and Minnesota Housing changed the definition of eligible persons to those with a serious mental illness in order to align with trends towards increased community based mental health services.

Funds available under the Bridges program provide temporary rental subsidy payments and, in some instances, security deposits for persons with a serious mental illness who meet the program eligibility criteria. The program requires participants to register for a permanent rental subsidy, primarily Section 8 Housing Choice Vouchers, when the waiting lists are open.

The Bridges program is cooperatively administered, monitored, and evaluated by Minnesota Housing and the DHS Adult Mental Health Division (DHS-AMH). This collaboration is essential to the effective operation of the program, as is the collaboration of the housing and mental health authorities at the regional and county level. Bridges grantees are required to work with their local Adult Mental Health Initiative (AMHI) in order to implement the program.

On February 2, 2015, Minnesota Housing announced the request for funding renewals, limited to existing Bridges administrators. Minnesota Housing and DHS-AMH staff reviewed the applications and performance of existing grants and found them all to be in good standing, with the exception of one proposal, the Morrison County Housing and Redevelopment Authority (HRA). Prior to the application period, the Region Five Plus Adult Mental Health Initiative (AMHI), who partners with the Morrison County HRA, was contacted regarding concerns over late payment reporting, communication issues, and poor performance on the tenant file review, over the past two years. The Morrison County HRA application did not adequately address these concerns and scored poorly; therefore the selection committee declined to continue funding the program. In order to continue to assist existing households on the program, six months of funding has been awarded to the Morrison County HRA, and another eighteen months of funding is being reserved for the region if the Region Five Plus AMHI is able to find another eligible housing partner. The Morrison County HRA will notify participants of the change.

Recently, the Cambridge Economic Development Authority (EDA) determined that administering housing assistance programs was no longer central to the mission. Therefore, the EDA made plans to discontinue the Bridges program and will transfer operations to the Mora HRA, effective September 1, 2015. To facilitate this transfer, Minnesota Housing has extended the current Cambridge EDA agreement through August 2015.

All Bridges funding recommendations are based on actual and anticipated costs per household, grantee performance, and demonstrated need. Funding requests and recommendations are attached.

In November 2014, Minnesota Housing's Board of Directors approved a change to the waiting list preferences for the Bridges program which become effective July 1, 2015. The changes reflect the goals of both the Minnesota Olmstead Plan and the Heading Home Plan to Prevent and End Homelessness. As part of the renewal process, DHS-AMH and Minnesota Housing staff reviewed administrators' waiting list plans and will be providing comments and approving the plans.

Sixteen housing agencies administer the Bridges programs in 58 counties across Minnesota.

Households pay 30% of their income for qualified units. Over the last state fiscal year (SFY14):

- 49% of households were in the metro area; 51% were in greater Minnesota
- 34% of households were families; 66% were single adults
- $9,750 was the average annual household income. 56% of households receive SSI or SSDI benefits; 8% are employed
- 35 months was the average length of subsidy
- 52% of households who left Bridges received a Section 8 or another permanent subsidy
- Participants' most recent living situations were:
    - Emergency shelter, living on the street, or in a program for homeless households (21%)
    - Temporarily staying with family or friends (20%)
    - Psychiatric facility, hospital, or substance abuse treatment center (16%)
    - Foster care or group home or board and lodge (3%)

Administrator	**Requested Target # Bridges HH/Month**	**Recommended Target # Bridges HH/Month**	**Requested Amount**	**Bridges Funding Recommendation**
Bemidji HRA	17	14	$152,564	$123,000
Blue Earth County EDA	14	9	$149,480	$98,000
Mora HRA	26	21	$297,536	$218,000
Dakota County HRA	46	41	$742,049	$648,000
Douglas County HRA	9	9	$91,135	$91,000
Duluth HRA	40	40	$453,000	$443,000
Kandiyohi HRA	16	13	$124,440	$103,000
Mental Health Resources*	19	12	$280,304	$163,000
Metro HRA	202	190	$3,088,176	$2,720,000
Moorhead PHA	33	20	$312,756	$194,000
Morrison County HRA	28	14	$274,800	$49,000
Owatonna HRA	40	30	$501,680	$330,000
Scott/Carver Counties EDAs	24	13	$465,300	$180,000
St. Cloud HRA	25	25	$281,000	$281,000
Tri-Valley Opportunity Council	8	6	$85,850	$64,000
Washington County HRA	24	19	$264,580	$209,000
Total	**571**	**476**	**$7,564,650**	**$5,914,000**

ELHIF Administrator	**Requested Target # Bridges HH/Month**	**Recommended Target # Bridges HH/Month**	**Requested Amount**	**ELHIF Funding Recommendation**	**Anticipated ELHIF Balance Carryover**
Dakota County	5	5	$67,600	$65,000	$3,000
Owatonna/CREST	15	15	$199,480	$180,000	$0
Scott/Carver Counties*	2	2	$44,900	$28,000	$14,000
St. Cloud	13	13	$134,600	$121,000	$14,000
Tri-Valley*	2	2	$21,650	$14,000	$8,000
Washington County	15	10	$216,700	$121,000	$24,000
Total	**52**	**47**	**$684,930**	**$529,000**	**$63,000**

*new in 2013

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

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING SELECTION/COMMITMENT BRIDGES AND BRIDGES ENDING LONG TERM HOMELESSNESS (ELHIF)

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications to provide rental assistance for persons with mental illnesses and persons with mental illness who also have long histories of homelessness; and

WHEREAS, the Agency staff has reviewed the applications and determined that they are in compliance under the Agency's rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into grant agreements using State and Agency resources as set forth below, subject to the availability of state appropriations and also subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

1. The Agency staff shall review and approve the Grantees the total recommended as indicated;

Bridges Grantee	**D Number**	**Award**	**Term**
Bemidji HRA	D4616	$ 123,000	24 months
Blue Earth County EDA	D5530	$ 98,000	24 months
Dakota County CDA	D3739	$ 648,000	24 months
Douglas County HRA	D3827	$ 91,000	24 months
Duluth HRA	D3740	$ 443,000	24 months
Kandiyohi HRA	D3829	$ 103,000	24 months
Mental Health Resources	D6280	$ 163,000	24 months
Metro HRA	D3741	$ 2,720,000	24 months
Moorhead PHA	D3828	$ 194,000	24 months
Mora HRA	D4792	$ 218,000	22 months
Morrison County HRA	D2002	$ 49,000	6 months
Owatonna HRA	D4265	$ 330,000	24 months
Scott/Carver Counties CDA	D3534	$ 180,000	24 months
St. Cloud HRA	D3745	$ 281,000	24 months
Tri-Valley Opportunity Council	D3853	$ 64,000	24 months
Washington County HRA	D1968	$ 209,000	24 months

Bridges ELHIF Grantee	**D Number**	**Award**	**Term**
Dakota County HRA	D3739	$ 65,000	24 months
Owatonna HRA	D4265	$ 180,000	24 months
St. Cloud HRA	D3745	$ 121,000	24 months
Washington County HRA	D1968	$ 121,000	24 months
Tri-Valley Opportunity Council	D3853	$ 14,000	24 months
Scott/Carver Counties CDA	D3534	$ 28,000	24 months

2. The issuance of grant agreements in form and substance acceptable to the Agency staff and the closing of the individual grants shall occur no later than six months from the adoption date of this Resolution; and

3. The sponsors and such other parties shall execute all such documents relating to said grant, as the Agency, in its sole discretion, deems necessary.

Adopted this 28th day of May, 2015.

____

CHAIRMAN

AGENDA ITEM: 7.F.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Hillside Terrace, Monticello D0998

CONTACT: Leslee Post, 651-296-8277
leslee.post@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:
Agency staff recommends the adoption of a resolution authorizing the issuance of a Financing Adjustment (FA) loan commitment in the amount of $254,142 subject to the terms and conditions of the Agency loan commitment.

FISCAL IMPACT:
The amount requested by the owner is equal to the amount of accrued FA savings directly attributable to Hillside Terrace. This loan is permitted under the approved budget for the Asset Management Financing Adjustment Factor (FAF)/Financing Adjustment (FA) program in the 2015 Affordable Housing Plan.

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
- Resolution

Background:

In March 2014, the Agency's Board of Directors approved provision of a $254,142 Asset Management loan to be funded by the Agency's FA/FAF pool provided that the owner agree to keep the development in the Section 8 or other housing assistance program for an additional 30 years beyond expiration of the current HAP contract; the owner was not amenable to a 30 year commitment and as a result the loan did not close. Board Resolution No. 14-012 expired on September 30, 2014.

This recommended action is the same as the previously approved action with the exception of the term of the commitment to the Section 8 program being reduced from 30 years to 15 years.

Hillside Terrace is a 36-unit, 100% Section 8 family development located in Monticello, 50 miles northwest of the Twin Cities. The development was financed with an Agency first mortgage which matured in October 2012. All land use restrictions expired when the original mortgage expired; leaving the Agency with no control over the future use of the property once the current HAP contract expires on August 16, 2017.

The owner recently refinanced with a HUD 223(f) first mortgage. According to the Project Capital Needs Assessment, the total amount needed for replacements over 20 years is $352,300; the property has been well-maintained but original materials/finishes are in need of replacement. Loan proceeds will be deposited into the Reserve for Replacement Account held and controlled by the MAP lender and applied to the cost of replacing siding and windows. Approval of the asset management loan will allow necessary repairs to be completed ahead of schedule.

In exchange for the new financing, the owner will commit to keep Hillside Terrace in the Section 8 program for 15 years beyond expiration of the current housing assistance payments (HAP) contract, currently set to expire on August 16, 2017. A 15 year commitment provides a 13:1 return on the Agency's investment of $254,142, leveraging an approximate present value of $4,304,825 in federal subsidies. The minimum rent subsidy period (MRSP) will extend the owner's commitment to remain in the Section 8 program to August 16, 2032.

MINNESOTA HOUSING FINANCE AGENCY

400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING ASSET MANAGEMENT LOAN

WHEREAS, the development known as Hillside Terrace in Monticello, Minnesota, MHFA Development No. 0998 (Development) is in need of repairs and improvements; and

WHEREAS, the owner has requested assistance from Minnesota Housing with funding replacement reserves for capital improvements; and

WHEREAS, staff proposes to provide funding for the costs of said improvements based upon the following terms:

1. Minnesota Housing will provide an Asset Management Loan (AML) to the Development in the amount of $254,142. The AML will be funded from the Agency's FA/FAF pool; and

2. The owner will agree to keep the development in the Section 8 program or other Housing Assistance Program (HAP) for an additional 15 years beyond expiration of the current HAP contract expiration date of August 16, 2017; and

3. The AML will be deferred at zero percent until expiration of the minimum rent subsidy period , at which time it will be forgiven; and

4. Loan proceeds will be deposited into the Multifamily Accelerated Processing (MAP) lender held and controlled Reserve for Replacement Account.

5. The AML may be paid in full at any time without penalty; and

6. The AML must be closed on or before November 30, 2015.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon staff obtaining a commitment by the owner to keep the development in the Section 8 program or other Housing Assistance program for an additional 15 years beyond expiration of the current HAP contract, Minnesota Housing will provide an asset management loan to Hillside Terrace, LLLP in the amount of $254,142 on the above described terms and conditions.

Adopted this 28th day of May, 2015

____
CHAIRMAN

AGENDA ITEM: 7.G
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Kimberly Meadow, Plymouth D1138

CONTACT: Leslee Post, 651-296-8277
leslee.post@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:
Agency staff recommends the adoption of a resolution authorizing the issuance of a Financing Adjustment (FA) loan commitment in the amount of $301,682 subject to the terms and conditions of the Agency loan commitment.

FISCAL IMPACT:
The amount requested by the owner is equal to the amount of accrued FA savings directly attributable to Kimberly Meadow. This loan is permitted under the approved budget for the Asset Management Financing Adjustment Factor (FAF)/Financing Adjustment (FA) program in the 2015 Affordable Housing Plan.

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
- Resolution

Background:

In March 2014, the Agency's Board of Directors approved provision of a $301,682 Asset Management loan to be funded by the Agency's FA/FAF pool provided that the owner agree to keep the development in the Section 8 or other housing assistance program for an additional 30 years beyond expiration of the current HAP contract; the owner was not amenable to a 30 year commitment and as a result the loan did not close; Board Resolution No. 14-013 expired on September 30, 2014.

This recommended action is the same as the previously approved action with the exception of the term of the commitment to the Section 8 program being reduced from 30 years to 15 years.

Kimberly Meadow is a 39-unit, 100% Section 8 family development in Plymouth, 14 miles west of Minneapolis. The development was financed with an Agency first mortgage which matured in May 2012. All land use restrictions expired when the original mortgage expired; leaving the Agency with no control over the future use of the property once the current HAP contract expires on October 8, 2018.

The owner recently refinanced with a HUD 223(f) first mortgage. According to the Project Capital Needs Assessment, the total amount needed for replacements over 20 years is $331,055; the property has been well-maintained and most of the units have been remodeled. Loan proceeds will be deposited into the Reserve for Replacement Account held and controlled by the MAP lender and applied to the cost of remodeling the remaining units. Approval of the asset management loan will allow necessary repairs to be completed ahead of schedule.

In exchange for the new financing, the owner will commit to keep Kimberly Meadow in the Section 8 program for 15 years beyond expiration of the current housing assistance payments (HAP) contract, scheduled to terminate on October 8, 2016. A 15 year commitment provides a 15:1 return on the Agency's investment of $301,682, leveraging an approximate present value of $4,536,908 in federal subsidies. The minimum rent subsidy period (MRSP) will extend the owner's commitment to remain in the Section 8 program to October 8, 2033.

MINNESOTA HOUSING FINANCE AGENCY

400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING ASSET MANAGEMENT LOAN

WHEREAS, the development known as Kimberly Meadow in Plymouth, Minnesota, MHFA Development No. 1138 (Development) is in need of repairs and improvements; and

WHEREAS, the owner has requested assistance from Minnesota Housing with funding replacement reserves for capital improvements; and

WHEREAS, staff proposes to provide funding for the costs of said improvements based upon the following terms:

1. Minnesota Housing will provide an Asset Management Loan (AML) to the Development in the amount of $301,682 and the AML will be funded from the Agency's FA/FAF pool; and

2. The owner will agree to keep the development in the Section 8 program or other Housing Assistance program for an additional 15 years beyond expiration of the current Housing Assistance Payments (HAP) contract expiration date of October 8, 2018; and

3. The AML will be deferred at zero percent until expiration of the minimum rent subsidy period (MRSP), at which time it will be forgiven; and

4. Loan proceeds will be deposited into the Multifamily Accelerated Processing (MAP) lender held and controlled Reserve for Replacement Account.

5. The AML may be paid in full at any time without penalty; and

6. The AML must be closed on or before November 30, 2015.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon staff obtaining a commitment by the owner to keep the development in the Section 8 program or other HAP for an additional 15 years beyond expiration of the current HAP contract, Minnesota Housing will provide an asset management loan to Kimberly Meadows, LLLP in the amount of $301,682 on the above described terms and conditions.

Adopted this 28th day of May, 2015

____

CHAIRMAN

AGENDA ITEM: 7.H
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Amendment to the 2015 Affordable Housing Plan (AHP): Flexible Financing for Capital Costs (FFCC) Programs and Asset Management Fund

CONTACT: Susan Thompson, 651-296-9838
susan.thompson@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:

When the Board approved the 2015 AHP in September 2014, staff based its recommendation for the FFCC program funding on anticipated applications for the 2014 RFP and previous production trends. Since September, the Agency has received higher than expected requests for these funds.

FISCAL IMPACT:

The following table shows the additional funds that the Agency would make available under the 2014 AHP:.

Program	Original AHP Allocations	Revised AHP Allocations	Increase	Funding Source
FFCC	$4,500,000	$4,605,000	$105,000	Housing Affordability Fund (Pool 3)
Asset Management Fund	$1,600,000	$1,495,000	($105,000)	Housing Affordability Fund (Pool 3)

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):

- Summary of Recommended Amendments

SUMMARY OF RECOMMENDED AMENDMENTS

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

During the 2014 RFP, developments were selected for FFCC loans at 93% of the 2015 AHP allocation. Subsequently, staff has received one pipeline request and one request for additional funding for a previously selected development. This has resulted in a current FFCC need for a total amount of $4,605,000 under the current AHP.

Additional funding authority of $105,000 under the AHP is being requested at this time to allow the Agency to process pending transactions under the FFCC program in excess of the current AHP authority. A transfer of funding authority from the Asset Management Fund will allow the Agency to process pending transactions under the FFCC program does not increase authority of Housing Affordability Funds under the 2015 AHP overall.

Minnesota Housing Finance Agency

AGENDA ITEM: 7.I
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Parkview Villa, Columbia Heights, D6179

CONTACT: Susan Thompson, 651-296-9838
susan.thompson@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:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $2,214,000, a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment in the approximate amount of $7,025,000 and a deferred funding commitment in the amount of $1,400,000 under the Preservation Affordable Rental Investment Fund (PARIF) program, subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2015 Affordable Housing Plan (AHP), the Board allocated $85 million in new activity for the LMIR program which includes $35 million from the Housing Investment Fund (Pool 2) and $50 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 $85,185 in fee income (origination fee and construction oversight fee), as well as interest earnings which will help offset Agency operating costs. The new PARIF loan will be funded from state appropriations and will not have any fiscal impact on the Agency's financial condition.

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
- Development Summary
- Resolution

BACKGROUND:

Parkview Villa was selected by Minnesota Housing in October 2012 for $1,500,000 deferred loan under the HOME Affordable Rental Program (HARP). The level of funding was increased to $1,828,845 in June 2013; subsequently in March 2015, in conjunction with a restructured financing package that includes the subject LMIR first mortgage, the deferred funding was modified from the HARP program to the PARIF program.

With the proposed LMIR first mortgage, LMIR Bridge Loan and the PARIF loan, this project will be fully funded and ready to start construction in the summer of 2015.

					D6179	
Name:	Parkview Villa				App#:	M17013
Address:	965 40th Avenue Northeast					
City:	Columbia Heights	County:	Anoka	MHIG	Region:	MHIG

MORTGAGOR:

Ownership Entity: Parkview Limited Partnership
General Partner/Principals: AEON, Parkview Villa LLC

DEVELOPMENT TEAM:

General Contractor: Shaw Lundquist Associates, Inc., Saint Paul
Architect: Meyer Scherer & Rockcastle Ltd (MS&R), Minneapolis
Attorney: Faegre Baker Daniels LLP, Minneapolis
Management Company: Aeon Management LLC, Minneapolis
Service Provider: Resident Connections, Minneapolis

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 2,214,000 LMIR First Mortgage
- Funding Source: Hsg Investment Fund (Pool 2)
- Interest Rate: 5.25%
- MIP Rate: 0.25%
- Term (Years): 30
- Amortization (Years): 30

$ 7,025,000 LMIR Bridge Loan
- Funding Source: Tax Exempt Future Bond Sale
- Interest Rate: 2.0% (Estimated*)
- Term (Years): 1.5

$ 1,400,000 PARIF
- Funding Source: Preservation ARIF
- Interest Rate: 0.00%
- Term (Years): 30

* The interest rate on the LMIR Bridge Loan will be based on the market rate at the time of the bond sale.

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
1BR	100	562	$ 830	$ 830	$ 33,200
2BR	1	744	$ 1,000	$ 1,000	$ 40,000
1BR	39	573	$ 650	$ 812	$ 26,000
2BR	2	776	$ 825	$ 975	$ 33,000
1BR	2	573	$ 660	$ 812	$ 26,400
2BR	2	776	$ 830	$ 975	$ 33,200
TOTAL	146				

NOTES: Under the LMIR and Tax Credit program, 144 units will be affordable at or below 50% AMI with incomes up to 60% AMI.
*101 units will have the benefit of Section 8 rental assistance ensuring that tenants pay no more than 30% of their income toward rent.

Purpose:
Parkview Villa (PVV) is the acquisition/rehabilitation proposal of two attached, elevator buildings with a total of 146 units. The north building (North) is a nine-story, slab-on-grade, steel-structured building containing 100 one-bedroom apartment homes and one two-bedroom apartment. The south building (South) is a four-story wood-frame building containing 45 one- and two- bedroom apartments. Beneath the South building is a 27-stall underground parking garage. The development meets the Preservation strategic priority. The development serves an important policy goal of addressing preservation of federally assisted housing.

Target Population:
The development will provide housing for elderly or physical or developmental disabled individuals and will target individuals and households of color. Approximately 50% of the current population is physically disabled.

North is reserved for residents age 62 and older or residents who meet the federal definition of disabled. Currently operated under the Public Housing Agency (PHA) system, the building has been approved by HUD to convert from the PHA system. As part of the new financing package Parkview Villa will enter into a HAP contract for the former PHA units. Through agreements with the City of Columbia Heights, the South building will continue to serve people age 55 and older.

The households will have incomes at or below 50% and 60% AMI, except for four units which will be unrestricted to ensure no current tenants are displaced. Although the units are not deemed to serve households who have experienced homelessness, supportive services for the elderly/disabled population has been deemed to be critical to the success of this population. HUD's approval of the disposition via its voluntary conversion process rather than the RAD process and the accompanying rent structure demonstrates HUD's concurrence with the importance of the services. As such, unique operating costs of $93,000 are included in the operating budget.

Project Feasibility:
The development is feasible as recommended. The LMIR mortgage is conservatively underwritten and will provide a 2.05 debt coverage ratio (DCR) in year one which declines to 1.25 in year 15. The $1.4 million PARIF loan will have repayments from cash-flow, if available. The LMIR Bridge Loan will be funded from tax-exempt bonds issued by the Agency with interest based on current market rates at the time of the bond sale, currently estimated at 2.0%. The Bridge Loan will be repaid from the Agency's LMIR and PARIF loans along with equity proceeds after completion of construction. The Agency financing will leverage over $4 million of tax credit equity (from US Bank at $0.92 per $1.00 of credit). The current owner, the City of Columbia Heights will provide a seller loan of nearly $6.6 million in addition to $850,000 of existing reserves. Projected sales tax and energy rebates of $129,000 and deferred developer fee of $316,000 will fully fund the development.

Development Team Capacity:
Aeon is the developer and will be the general partner as well as the management company for the development. Aeon has completed over 2,000 units of affordable, family and supportive housing units, several of which of similar size and scope of the proposed development. Aeon has two developments in process and two under construction with the Agency and has a sufficient plan to complete the development on time and within budget.

MS&R is the architect and Shaw-Lundquist is the contractor for the development; both have successfully completed similar developments in a timely manner and have experience in affordable housing projects with the Agency.

Physical and Technical Review:
The buildings will receive new windows, a new main entrance canopy, common and community area reconfiguration and reconstruction, selected plumbing fixture replacement, elevator upgrades, light fixture upgrades, new interior dwelling unit and common area finishes, and selected structural remediation. Six units in North will be converted into fully accessible units. Exterior work includes new siding and roofing of the South Building while the exterior scope for North includes exterior painting, minor Exterior Insulation Finish System (EIFS) repair and conversion of existing covered exterior space to four-season Sun Porch.

Market Feasibility:
Based on the market study submitted with the application, demographic data shows that the total senior population is expected to increase at a faster rate than the overall populations at a rate of 3.3% annually for the Primary Market Area (PMA) and 3.9% annually for the Metropolitan Statistical Area (MSA). This development is an existing property so the supply of available units in the area will not be affected. Age restricted properties have been reporting zero vacancies. The proposed rents of the subject property are positioned well below the maximum allowable levels for the 50% AMI rent restrictions and utilities will be paid by the owner.

The supportive services coordinator position will be a vital role to make this project successful by providing services to tenants and should help reduce unit turnover by helping tenants find services they need.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$15,593,617		$106,806
Acquisition or Refinance Cost	$7,470,000		$51,164
Gross Construction Cost	$4,499,550		$30,819
Soft Costs (excluding Reserves)	$2,902,247		$19,878
Non-Mortgageable Costs (excluding Reserves)	$651,692		$4,464
Reserves			
Total LMIR Mortgage	$2,214,000		$15,164
First Mortgage Loan-to-Cost Ratio		14%	
Agency Deferred Loan Sources			
PARIF	$1,400,000		$9,589
LMIR Bridge Loan	$7,025,000		$48,116
Total Agency Sources	$10,639,000		$72,870
Total Loan-to-Cost Ratio		68%	
Other Non-Agency Sources			
Sales Tax Rebate	$129,339		$886
Syndication Proceeds*	$4,098,696		$28,073
Deferred Developer Fee	$316,482		$2,168
General Partner Cash	$100		$1
City of Columbia Heights Cash - Reserve	$850,000		$5,822
City of Columbia Heights Acq. Note/Loan	$6,585,000		$45,103
Total Non-Agency Sources	$11,979,617		$82,052

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

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIRBL) PROGRAM
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Parkview Apartments
Sponsors:	Parkview Limited Partnership
Guarantors:	Aeon
Location of Development:	Columbia Heights
Number of Units:	146
General Contractor:	Shaw Lundquist Associates, Inc., Saint Paul
Architect:	Meyer Scherer & Rockcastle Ltd (MS&R), Minneapolis
Amount of Development Cost:	$15,593,617
Amount of LMIR Mortgage:	$2,214,000
Amount of LMIR Bridge Loan (BL) (but not limited to):	$7,025,000
Amount of PARIF Loan:	$1,400,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide construction and permanent mortgage loans to said applicant from Housing Investment Fund (Pool 2 under the LMIR Program), the sale of new tax-exempt bonds (under the LMIRBL Program) and from appropriated funds (under the PARIF Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $2,214,000; and

2. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and

3. The term of the permanent LMIR loan shall be 30 years; and

4. The amount of the PARIF deferred loan shall be $1,400,000; and

5. Repayment of the PARIF loan shall be from cash-flow, with interest at 0 percent, and the loan term shall be co-terminus with the LMIR loan; and

6. The Combined LMIR and PARIF End Loan Commitment shall be entered into on or before November 30, 2015 and shall have an 18 month term (which shall also be the LMIR and PARIF Commitment Expiration Date); and

7. The amount of the LMIR Bridge Loan is estimated, but not limited to $7,025,000; and

8. The LMIR Bridge Loan transaction will be financed with the proceeds of tax-exempt bonds of the Agency, and the commitment is subject to the ability of the Agency to sell bonds on terms and conditions, and in a time and manner acceptable to the Agency; and

9. The interest rate pursuant to the Bridge Loan will be based on the interest rate on the series of bonds issued to finance the Bridge Loan plus up to the maximum allowable spread, and is estimated to be 2.0 percent per annum payable monthly with the principal due in a balloon payment no more than 18 months after closing; and

10. Agency staff shall review and approve the Mortgagor; and

11. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

12. In accordance with subd. 39 of Minn. Stat. § 462A.05, and the rider to the appropriation providing funds to the program, the Mortgagor will enter into a covenant running with the land requiring owner to renew the Section 8 HAP contract for the term of the PARIF loan, and to agree to accept renewals of such assistance for so long as it is made available to the development, and providing the right of first refusal to a non-profit or local unit of government should the Owner receive a viable purchase offer during the term of the loan; and

13. Aeon (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's construction completion and debt service obligations until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

14. Aeon (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's payment obligations under the LMIR Regulatory Agreement and the LMIR Mortgage (other than principal and interest) with the Agency for the term of the loan; and

15. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security

therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 28th day of May, 2015.

____

CHAIRMAN

AGENDA ITEM: 7.J
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Cathedral Hill Homes, Saint Paul, D2621

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

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S): If approval was checked above, select all types that apply

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

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $2,060,000, a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment in the approximate amount of $6,621,000 and a deferred funding commitment in the amount of $465,000 under the Flexible Financing Capital Costs (FFCC) program, subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2015 Affordable Housing Plan (AHP), the Board allocated $85 million in new activity for the LMIR program which includes $35 million from the Housing Investment Fund (Pool 2) and $50 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated $4.5 million in new activity under the FFCC program (funded through the Housing Affordability Fund – Pool 3)*. 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 approximately $165,140 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

*At the May 2015 meeting, a request will be presented to the Board for approval of a modification under the 2015 AHP to increase the FFCC allocation to a total of $4,605,000.

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
- Development Summary
- Resolution

BACKGROUND:

Staff is recommending selection and commitment approval of Cathedral Hill for Low and Moderate Income Rental (LMIR) program commitment in the amount of $2,060,000, a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment in the approximate amount of $6,621,000 and a deferred funding commitment in the amount of $465,000 under the Flexible Financing capital Costs (FFCC) program.

Cathedral Hill is a 60-unit, 100% Section 8 family development Ramsey Neighborhood of Saint Paul. This project will be fully funded and ready to start construction in the summer of 2015 with the proposed LMIR first mortgage, LMIR Bridge Loan and the FFCC loan.

DEVELOPMENT SUMMARY
DEVELOPMENT:

				D2621	
Name:	Cathedral Hill Homes			App#:	M16923
Address:	Multiple Building Addresses				
City:	Saint Paul	County:	Ramsey	Region:	MHIG

MORTGAGOR:

Ownership Entity:	CB Cathedral Hill Limited Partnership
General Partner/Principals:	CB Cathedral Hill LLC

DEVELOPMENT TEAM:

General Contractor:	Frerichs Construction Company, Saint Paul
Architect:	Cermak Rhoades Architects, Saint Paul
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	CommonBond Housing, Saint Paul
Service Provider:	CommonBond Communities, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 2,060,000	LMIR First Mortgage		
	Funding Source:	Hsg Investment Fund (Pool 2)	
	Interest Rate:	5.25%	
	MIP Rate:	0.25%	
	Term (Years):	30	
	Amortization (Years):	30	
$ 6,621,000	LMIR Bridge Loan		
	Funding Source:	Tax Exempt Future Bond Sale	
	Interest Rate:	2.0%	(Estimated*)
	Term (Years):	1.5	
$ 465,000	FFCC		
	Funding Source:	Hsg Investment Fund (Pool 3)	
	Interest Rate:	0.00%	
	Term (Years):	30	

* The interest rate on the LMIR Bridge Loan will be based on the market rate at the time of the bond sale.

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
1BR	21	750	$ 845	$ 975	$ 33,680
2BR	16	950	$ 1,071	$ 1,170	$ 42,840
3BR	23	1515	$ 1440	$ 1440	$ 57,600
TOTAL	60				

Under the LMIR and Tax Credit program, 60 units will be affordable at or below 60% AMI with incomes up to 60% AMI. All of the units will have the benefit of Section 8 rental assistance ensuring that tenants pay no more than 30% of their income toward rent.

Purpose:
CommonBond is requesting funding for the acquisition and substantial rehabilitation of Cathedral Hills Homes located in the Ramsey Hill neighborhood in Saint Paul. This 60 unit development is comprised of seven three-story walk-up buildings with 21 one-bedroom, 16 two-bedroom, and 23 three-bedroom units with adjacent surface parking. The project will contain 60 Housing Tax Credit (HTC) units and three units reserved for family households who have experienced homelessness.

Target Population:
The targeted population is general occupancy which consists of families with children, single heads of households with children, and individual/families of color. Incomes are at or below 60% of area median income (AMI) and rents are also affordable to households at 60% AMI. 100% of the units are assisted by Section 8 rental assistance assuring that tenants do not pay more than 30% of their income towards rent. The development will continue to target the same population with no temporary or permanent displacement. Three units will be reserved for families who have experienced long-term homelessness (LTH), are at significant risk of long-term homelessness, or as prioritized from permanent supportive housing by the Coordinated Entry System.

Project Feasibility:
The development is feasible as proposed and is recommended for funding. The proposal will result in the rehabilitation of 60 existing units of affordable housing near transit, jobs, and services. The financing includes short-term tax-exempt bond financing, 4% tax credit syndication proceeds, federal and state historic tax credits, Minnesota Housing LMIR first mortgage financing, FFCC, assumption of the existing PARIF, City of St. Paul deferred loan, a seller note and deferred developer fee. The property is near job opportunities, retail locations, and services. The development cash flows at the proposed rent levels and are consistent with program underwriting guidelines.

The TDC of $240,721 per unit is within 25% of the Predictive Model.

Development Team Capacity:
CommonBond has a long history of bringing development proposals to completion in a timely manner. The developer has utilized Agency first mortgages, deferred loans, and tax credits with proven success. The Agency has had positive experience with CommonBond Communities. They were established in 1971 and currently have 101 developments totaling 5,477 units.

Physical and Technical Review:
The Architect is Cermak Rhoades. The Contractor is Frerichs Construction Company. Both the contractor and architect have the capacity, have successfully completed a similar number of developments in a timely manner, and have experience in affordable housing projects with the agency. The site, surrounding land uses and existing facility are appropriate for the proposed affordable housing concept.

Market Feasibility:
Cathedral Hill is located in a high density and fully developed neighborhood of Ramsey Hill. Vacancy in the market area is currently 2.3% and proposed rents will offer a significant market advantage. Historically vacancy for the property has been between 1-3%. The development wait list is lengthy with over 300 families exhibiting a strong market with high occupancy and unmet demand.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$14,443,247		$240,721
Acquisition or Refinance Cost	$4,903,505		$81,725
Gross Construction Cost	$6,062,024		$101,034
Soft Costs (excluding Reserves)	$2,969,892		$49,498
Non-Mortgageable Costs (excluding Reserves)	$0		$0
Reserves	$507,826		$8464
Total LMIR Mortgage	$2,060,000		$34,333
First Mortgage Loan-to-Cost Ratio		14.3%	
Agency Deferred Loan Sources			
FFCC	$465,000		$7,750
LMIR Bridge Loan	$6,621,000		$110,350
Assumed PARIF Loan	$329,888		$5,498
Total Agency Sources	$9,457,888		$157,931
Total Loan-to-Cost Ratio		65.5%	
Other Non-Agency Sources			
Sales Tax Rebate	$55,000		$916
Syndication Proceeds	$6,059,390		$100,989
Deferred Developer Fee	$662,751		$11,046
General Partner Cash	$545,447		$9,091
City of St. Paul	$495,080		$8,251
Seller Loan	$3,646,537		$60,776
Interim Income	$124,154		$38,562
Total Non-Agency Sources	$11,588,359		$193,139

Board Agenda Item: 7.J
Attachment: Resolution

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

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIRBL) PROGRAM
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Cathedral Hill Homes
Sponsors:	CB Cathedral Hill Limited Partnership
Guarantors:	CommonBond
Location of Development:	Saint Paul
Number of Units:	60
General Contractor:	Frerichs Construction Company, Saint Paul
Architect:	Cermak Rhoades Architects, Saint Paul
Amount of Development Cost:	$14,443,247
Amount of LMIR Mortgage:	$2,060,000
Amount of LMIR Bridge Loan (BL) (but not limited to):	$6,621,000
Amount of FFCC Loan:	$465,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a construction and permanent mortgage loans to said applicant from Housing Investment Fund (Pool 2 under the LMIR Program), the sale of new tax-exempt bonds (under the LMIRBL Program) and from Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $2,060,000; and

2. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30-year amortization; and

3. The term of the permanent LMIR loan shall be 30 years; and

4. The amount of the FFCC deferred loan shall be $465,000; and

5. Repayment of the FFCC loan shall be deferred, with interest at 0 percent, and the loan term shall be co-terminus with the LMIR loan; and

6. The Combined LMIR and FFCC End Loan Commitment shall be entered into on or before November 30, 2015 and shall have an 18 month term (which shall also be the LMIR and FFCC Commitment Expiration Date); and

7. The amount of the LMIR Bridge Loan is estimated, but not limited to $6,621,000; and

8. The LMIR Bridge Loan transaction will be financed with the proceeds of tax-exempt bonds of the Agency, and the commitment is subject to the ability of the Agency to sell bonds on terms and conditions, and in a time and manner acceptable to the Agency; and

9. The interest rate pursuant to the Bridge Loan will be based on the interest rate on the series of bonds issued to finance the Bridge Loan plus up to the maximum allowable spread, and is estimated to be 2.0 percent per annum payable monthly with the principal due in a balloon payment no more than 18 months after closing; and

10. Agency staff shall review and approve the Mortgagor; and

11. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

12. CommonBond (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's construction completion and debt service payment obligations until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

13. CommonBond (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's payment obligations under the LMIR Regulatory Agreement and the LMIR Mortgage (other than principal and interest) with the Agency; and

14. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted 28th day of May 2015.

____

CHAIRMAN

AGENDA ITEM: 7.K
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Program Evaluation Results, Approval of Modifications, and Extension of the Rental Rehabilitation Deferred Loan (RRDL) Pilot Program

CONTACT: Susan Haugen; 651.296.9848
susan.haugen@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 proposed four program modifications and the authority to extend the RRDL Pilot Program until October 31, 2017.

FISCAL IMPACT:
This change will have no fiscal impact under the current Affordable Housing Plan.

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

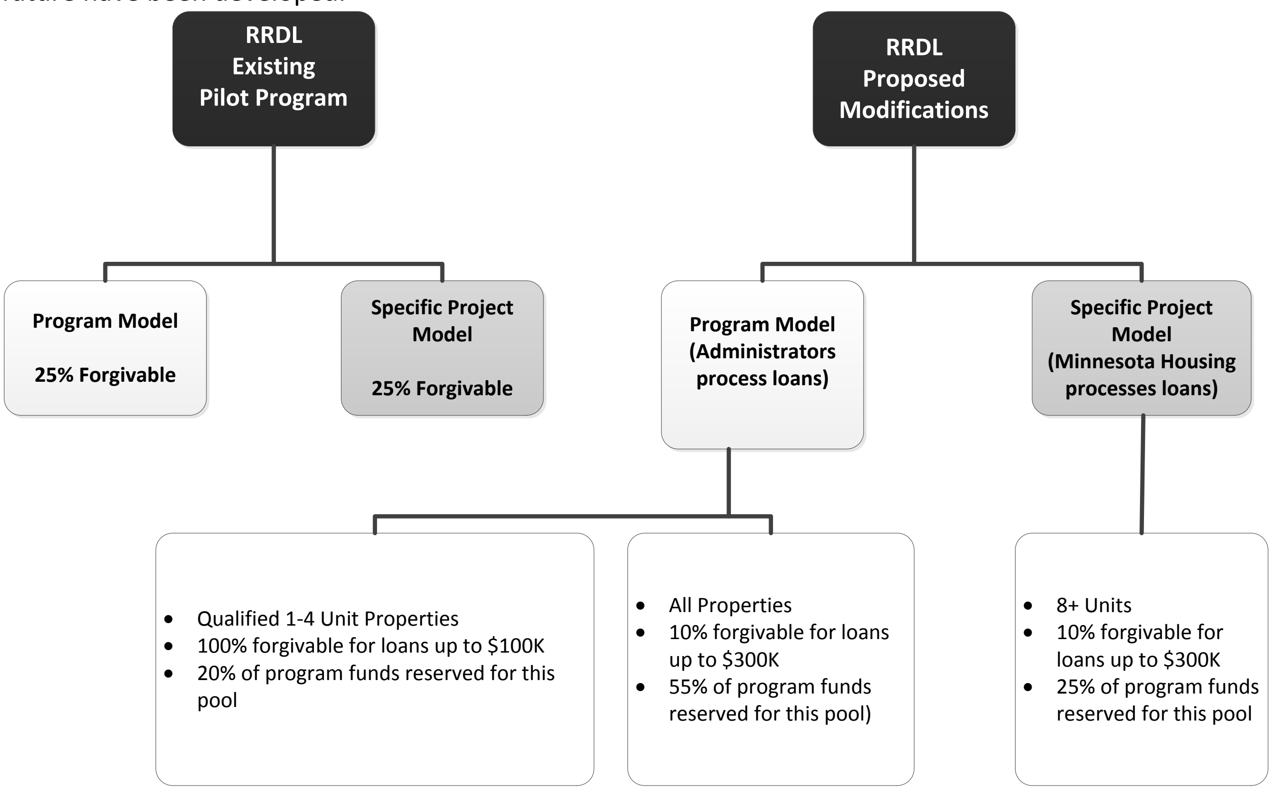
☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background and Proposed Modifications
- RRDL Pilot Program Evaluation Report
- 2016-17 RRDL Pilot Program Term Sheet
- RRDL Specific Project and Administrators' Activity by Units

BACKGROUND

On September 22, 2011, the Minnesota Housing board authorized staff to implement the RRDL Pilot Program. The program was established to provide financing options for moderate rehabilitation to owners of naturally affordable, existing, smaller scale, rental housing in Greater Minnesota. RRDL prioritizes the preservation of rental housing stock that is affordable to the local workforce and convenient to jobs, transportation, and essential services. The funding source for the pilot program was $16.4 million in state appropriations over a four year period.

At the end of the initial pilot period, staff evaluated the effectiveness of the RRDL Pilot Program. The attached RRDL Program Evaluation Report demonstrates that it was largely successful in meeting its production goals and four program objectives. From these findings, recommendations for the program's future have been developed.



FOUR PROPOSED PROGRAM MODIFICATIONS

1. Improve Delivery of Specific Project Funding

For loans processed directly by Minnesota Housing, replace the annual Request for Proposal (RFP) with a pipeline application process to improve delivery responsiveness and efficiency. This will be particularly beneficial to critical need or time-sensitive developments when all other financing options have been exhausted. Historically, slightly more than 25% of program funds have been reserved for Specific Projects. Staff will continue to set aside a similar portion of program funds in a Specific Project pipeline, where funds may be reallocated as appropriate and will be available on a first-come, first-served basis.

For Specific Project Model properties:

- Forgive up to 10% of the debt for maintaining the applicable income and rent requirements and annual compliance reporting until the loan is repaid
- 5% will be forgiven each year of the last two years of the RRDL loan

Eligibility for RRDL Specific Project pipeline funds will comply with current program requirements while including the following additional conditions:

- Require properties to have a minimum of eight units
- The requested amount must be the final source needed to complete the financing package
- The property must be outside of an RRDL Program Model administrator's service area or owned by an RRDL Program Model administrator and located within their service area
- The project must meet one of the following threshold requirements:
    - The proposal is for immediate emergency repairs threatening the health and safety of existing tenants
    - The proposal has existing funding commitments that cannot be extended and will be otherwise lost
    - The proposal documents a unique housing opportunity that would be lost
    - The proposal advances Minnesota Housing strategic priorities as outlined in the RRDL Guide
        - For example, RRDL may provide financing for repairs that are necessary on a property to extend an existing rent or operating subsidy that would otherwise expire or be terminated.

2. Improve Delivery of Program Model Funding

Allow administrators to contract with local specialists to keep administration and borrower costs low. For example, allow sub-contracting with qualified local rehabilitation specialists to perform inspection and construction oversight to contain administrator expenses for additional travel to remote properties. Administrators must ensure the contract will expand or improve customer service while reducing or containing costs and fees. Contracted services will not duplicate administrator services or expenses. Administrators will assume full responsibility for sub-contractors' performance with respect to the RRDL Program and full liability for the work performed.

3. Increase Participation of Underrepresented 1-4 Unit Properties

In Greater Minnesota, 51.2% of the rental housing units are in properties with 1-4 units. In 2013, RRDL Program Model modifications designed to help administrators attract more owners of 1-4 unit properties increased participation from 2.8% to 4.5%. Participation of these owners is still not proportional to their share of the market.

Currently, 25% of the debt may be forgiven for all loans, 5% each year over the last five years of the RRDL loan term for maintaining the applicable income and rent limits and compliance requirements. To further encourage the participation of 1-4 unit properties while maintaining the incentives for properties with 5 or more units, the following modifications are recommended:

For Program Model properties not qualified for a fully forgivable loan:

- Forgive up to 10% of the debt for maintaining the applicable income and rent requirements and annual compliance reporting until the loan is repaid
- 5% will be forgiven each year of the last two years of the RRDL loan

For Program Model properties with 1-4 units and an RRDL loan of $100,000 or less:

- Forgive up to 100% of the debt after 10 years for maintaining the applicable income and rent requirements and annual compliance reporting when the following conditions are met:
    - The owner is an individual, sole proprietorship, or legal entity made up of an individual and a spouse, as appropriate
    - The property is existing permanent residential rental housing that is owner-operated and located in a participating RRDL administrator service area
    - The rehabilitation addresses conservation, health and safety, code compliance items, or improvements required to maintain rental license or rental assistance

Staff recommends reserving a portion of the program allocation for the biennium to provide fully forgivable loans to this underserved segment of rental housing stock in Greater Minnesota. Twenty percent of funds are potentially 100% forgivable and will be reserved for 1-4 unit properties. The remaining 80% of funds are 10% forgivable and will be reserved for all other properties. Administrators can apply to administer one or both of these loan types, but they need to apply separately for each allocation. These modifications are expected to increase the share of RRDL assisted properties with 1-4 units from 4.5% (25 units) to 9.6% (53 units).

The reduction of funds forgiven for projects with more than 4 units should not greatly affect the share of larger properties improved. These adjustments may result in a small increase in the portion of program funds forgiven, dependent upon the amount reserved for the fully forgivable loans, but Minnesota Housing research indicates this approach, with the related due diligence modifications, should persuade more owners of 1-4 unit properties to participate. These adjustments will also offer further insight into the characteristics of this group of property owners through their participation in the RRDL program.

4. Increase the Minimum Owner Equity Contribution

Change the current minimum contribution of 5% of the project soft costs to a minimum contribution based on a percentage (3%) of the total RRDL loan amount. This will help offset the increase in loan forgiveness, increase an owner's personal investment in the project, and establish a contribution that is based on the RRDL loan amount rather than on costs that can fluctuate.

Recommendations for Pilot Program Extension

Staff recommends extending the operation of the RRDL Pilot Program through October 31, 2017 to fully evaluate the effectiveness of the proposed program changes. The extension will allow staff: (1) to continue program production with current administrators, (2) to strengthen and expand the pool of administrators, and (3) the opportunity to assess the impact of the proposed modifications and develop recommendations for a permanent RRDL Program in the fall of 2017.

RRDL Program Timeline:
<u>2015</u>
May – Board approve 2015 RRDL Program changes, distribution of program funds, and pilot extension
June – Board approve 2015 RRDL Program Guide
July – Publish an RFQ for administrators and open pipeline for Specific Project applications
August – Administrator applications are due
November – Board approve selection recommendations.

2016

Work to increase the pool of capable and high preforming administrators and evaluate the effect of modifications on program production.

2017

Evaluate the effectiveness of the modifications in meeting the RRDL program objectives.
Report to the Board on program progress and if necessary recommend additional changes.
Determine if we are ready to proceed to make the program permanent.

Minnesota Housing Finance Agency

Evaluation Report

Rental Rehabilitation Deferred Loan Pilot Program
May 2015

Introduction

Minnesota Housing needs to wisely and efficiently preserve existing rental housing that is affordable to the local workforce. Housing data from local and regional studies and comments from stakeholders and partners indicate that a substantial inventory of affordable rental housing in small communities in Greater Minnesota is at risk due to a lack of resources to maintain and stabilize the units. These properties do not often qualify or are less competitive for existing multifamily programs and loans.

Program History and Highlights

In September 2011, the Minnesota Housing board authorized the Rental Rehabilitation Deferred Loan Pilot (RRDL) Program to address this need.

- The program is offered outside of the seven-county metro area and focuses on communities where owners have fewer options for rehabilitating small rental properties.
- RRDL is a partially forgivable deferred loan that is delivered directly by Minnesota Housing and also delivered through a network of local administrators.
- RRDL stabilizes units that are naturally affordable to the local workforce and that are convenient to jobs, transportation, and essential services.
- The RRDL program fills an important niche in preserving the stock of affordable rental housing not available from any other sources.
- RRDL has been most successful in rehabilitating 12-36 unit properties that may or may not be federally subsidized.
- The 1-4 unit segment of the market remains underrepresented in the current portfolio of RRDL assisted units.

Greater Minnesota Rental Housing Rehab Needs

- Greater Minnesota has 40% of the state's rental housing stock, an estimated 232,000 units.
- 60% of all rental units in Greater Minnesota are in buildings with fewer than 10 units, and single family homes account for 37% of all rental housing units.
- This is an older housing stock, with 61% of rental units built before 1980 and 32% built before 1960.
- 44% of renter households in rural counties are cost burdened, spending more than 30% of their income on housing. [1]

Program Objectives

The RRDL Pilot program has four objectives:

1. Preserve existing rental housing stock in Greater Minnesota that is affordable to the local workforce
2. Provide financial resources to owners of smaller, affordable, rental housing where other opportunities for financing moderate rehabilitation are not available or attainable
3. Develop a program that depends on a network of highly capable, local administrators to deliver, administer, and oversee the program with minimal Minnesota Housing staff involvement
4. Develop a right sized loan product to preserve affordable rental housing in areas not covered by a local administrator or owned by participating administrators

[1] *Together We Invest in Communities-2013 Housing Needs Study* – Federal Home Loan Bank of Des Moines.

Program Design
The RRDL Pilot Program is based on a blend of multifamily and single-family program designs and offers applicants two different opportunities for participating:

1. **Program Model:** Local entities apply to administer the program and fund local rehabilitation projects. They are encouraged to be creative and innovative in designing a local program to best meet the needs of owners. Administrators target:
   - Small properties with 1-10 units that are owned by individuals, or
   - Medium to large scale (up to 50 units) professionally managed properties, or
   - A combination of both.

2. **Specific Project Model**: Property owners apply directly to Minnesota Housing for funding to rehabilitate a specific property. Eligible properties are medium to large scale properties that are:
   - Located outside an administrator service area, or
   - Owned by local administrators, or
   - Beyond the expertise of a local administrator to process.

RRDL program funds are awarded as a 0% deferred loan. The loan may be used for moderate rehabilitation of permanent rental properties. Loan terms range from 10 to 30 years depending on the loan amount and currently, 25% of the total loan may be forgiven at maturity if rent compliance and income requirements are met.

See the RRDL 2016-17 Program Term Sheet.

Program Production
Over the course of the pilot program, $16.4 million was made available for RRDL. Of that amount, $15.9 million has been allocated to eight local administrators ($13.7 million) and eight specific projects ($2.2 million). Figure 1 below describes three RRDL funding cycles that have been offered.

Figure 1: Summary of Program Funding History

2012-13 RRDL		
RFP October, 2011 Available: $8.6 million		
Program Model: Administrators	**Awarded**	**Type of Property**
9 applications submitted 7 administrators selected	44 counties; 9 cities $7.7 million	3 target smaller 1-10 unit properties 4 target larger 12-50 unit properties
Specific Project Model: Owners	**Awarded**	**Type of Property**
4 owners applied 3 properties were selected	126 units, 3 cities $729,409	Medium to large properties outside the administrators' service area
Second RFP December, 2012 Available: $1.4 million		
Program Model: Administrators	**Awarded**	**Type of Property**
1 application submitted 1 administrator was selected	4 counties covered; $800,000	1-4 unit properties in a small target area Larger properties throughout the service area
Specific Project Model: Owners	**Awarded**	**Type of Property**
4 owners applied 2 properties were selected	32 units, 2 cities $600,000	Medium to large properties outside the administrators' service area
Reallocated Funds: August 2014		
Specific Project Model: Owners	**Awarded**	**Type of Property**
3 owners applied 3 properties were selected	36 units, 3 cities $849,058	Medium to large properties outside the administrators' service area
2014-15 RRDL		
RFP June, 2014 Available: $6.4 million		
Program Model: Administrators	**Awarded**	**Type of Property**
6 previously participating administrators selected	60 counties; 10 cities $5.2 million	3 target 1-10 unit properties 1 targets 11-24 unit properties 2 target 24 unit and larger properties

Program Outcomes

The RRDL pilot program has achieved each of the four program objectives.

Objective 1: Preserve existing rental housing stock in Greater Minnesota that is affordable to the local workforce.
Program staff projected the rehabilitation of 775 units based on an average loan of $20,000 per unit. Administrators projected rehabilitating 777 units with RRDL Pilot program funds. In the end, a total of 814 units (620 Program Model and 194 Specific Project units) have been or soon will be rehabilitated. An additional 250 units are in the administrator's pipeline waiting for final approval and a commitment of funds to begin construction. Thus far, the pilot exceeded its initial production estimates by 37% (289 units). There is also an additional $500,000 remaining in the administrators' pipeline to be assigned to a specific project.

See the RRDL Administrators' Activity by Units

Overall, the average loan per unit was $12,190, well below the expected $20,000 per unit. Figure 2 shows that the average RRDL loan amount per unit varies significantly by size of the property, with 1-4 unit properties having the largest per unit loans. The underrepresentation of 1-4 unit properties in the RRDL portfolio is the primary reason for the smaller than expected per unit loan amounts.

Figure 2: Average RRDL Loan Amount per Unit by Property Size

Property Size	Average Loan Amount Per Unit
1-4 Units	$27,869
5-19 Units	$18,540
20 or More Units	$7,960
All Properties	$12,190

Source: Based on 2012 and 2014 RRDL Property Data for 808 Units.

Preservation of Federally-Subsidized Units

As part of this overall effort, RRDL successfully rehabilitated small to medium sized USDA Rural Development and HUD properties with rental subsidies. The program has stabilized 225 federally assisted units and 40 additional units are in the process to receive funds. The properties range in size from 4 to 31 units with the average property having 15 units. These smaller projects address a specific stabilization niche under the Agency's overall preservation effort.

Unit Affordability

RRDL rents are to be affordable to the local workforce[2]:

- 97.9% of the RRDL units reported rents affordable to tenants at 60% of the HUD defined Area Median Income (AMI).
- 71.1% of the RRDL units are affordable at 50% AIM.
- 48% of the units reported receiving Project-Based or Tenant-Based Rental Assistance.

Tenant Income

- Household incomes of tenants in RRDL units may not exceed 80% of the greater of the state median income or AMI for a family of four.
- The median income for RRDL assisted households is $14,119.
- 72.7% of RRDL assisted households had incomes below $20,000.
- HUD's estimate of median income in Minnesota non-metro areas is $63,800. HUD defines extremely low income as 30% or less of the median income, which is $19,140 in non-metro areas.

[2] Defined as the lesser of MN Department of Employment and Economic Development published county wages and 80% of the county's AMI as published by HUD.

Figure 3: Characteristics of RRDL Households

Characteristics of Households	Totals/% Total/Median
Total Number of Units with Tenant Data*	493
Percent of Units Vacant	8%
Households , no Children	336 (74.2%)
Households, with Children	117 (25.8%)
Median Annual Household Income	$14,119
Percent with Project-Based Rental Assistance	44%
Percent with Tenant-Based Rental Assistance	4%
No Known Assistance	52%

*Based upon data for 439 RRDL Households as of March 2015

Objective 2: Provide financial resources to owners of smaller, affordable, rental housing where other opportunities for financing moderate rehabilitation are not available or attainable.

Identification of Barriers

In February 2012, seven of the eight administrators were established. They marketed the RRDL Program and received their first applications for processing. After six months, however, property owners had difficulty completing applications, and submissions were slower than expected. Staff surveyed administrators and property owners who applied for funds (including those who ended up not being eligible or those who withdrew from the application process) to better understand and identify the characteristics of owners and the barriers they faced when completing applications.

The results of the survey identified that owners of small properties were interested in the program, but very few were able to complete the required application and due diligence materials. Owners of smaller 1-4 unit properties tended to be individuals, sole proprietorships, and small-scale owner-managers. Owners did not complete the application for the following reasons:

- Properties were self-managed, and owners did not prepare or maintain several documents required in the application process, including historic operating statements, cash flow and vacancy records, household income and rent rolls, or personal financial statements.
- Owners did not have traditional mortgage financing and may have instead financed multiple single family homes or larger properties with one blanket mortgage, a commercial loan, a contract for deed, or other instruments unique to local lenders.
- Owners did not qualify for the RRDL financing due to a low or slightly negative cash flow, low or negative loan-to-value ratios, or inadequate resources to provide collateral or guarantees for loans.
- Owners did not have the knowledge or means to secure funds with government requirements and were apprehensive about long-term obligations and compliance reporting.

Administrators targeting larger properties found owners receptive and capable of completing the application materials; however, owners faced challenges meeting underwriting and closing standards that were based upon Minnesota Housing's traditional Multifamily Consolidated RFP financing requirements. For example:

- Minnesota Housing’s Multifamily due diligence requirements expect first mortgages to be fully amortized. Many properties likely to use RRDL are financed with commercial bank loans with a note subject to renegotiation every 3 to 5 years, which barred these properties from participating in the program.

- Projects with Total Development Costs (TDCs) exceeding $300,000 are required to be or form a single asset ownership entity. Minnesota Housing staff found ownership documents drafted 15 or more years ago often do not contain provisions clearly stating whether or not the organization is a single asset entity, even if it were. Owners found the requirement confusing and frustrating.

Identification of Target Owners

Staff determined the program was not properly targeting the Greater Minnesota individuals most likely to own small to medium sized rental properties. Two types of owners were identified as primary customers for the RRDL Program:

- Individual, sole proprietorship owners of small 1-4 unit owner operated properties. They are typically Do It Yourself (DIY), part-time owners, and they considered rental income as secondary personal sources of income or investment.
- Small-scale professional owners operating as a Limited Liability Corporation, S Corporation, Limited Partnership, etc. These properties may or may not have professional management on site, and they have portfolios with fewer than 100 units. These owners view property operation and management as a full-time occupation.

As Figure 4 shows, units in small properties (1-4 units) account for 51.2% of Greater Minnesota's rental units, but these units only accounted for 2.8% of the units originally receiving RRDL.

Figure 4: Share of Greater Minnesota Rental Units and Units Applying for RRDL by Property Size

Property Type	Share of Greater Minnesota Rental Units	Share of Units Originally Receiving RRDL	Share of Units Receiving RRDL after 2013 Program Modifications
1-4 Units	51.2%	2.8%	4.5%
5-19 Units	19.8%	19.3%	35.1%
20 or More Units	25.5%	77.9%	60.4%
Unknown	3.4%	NA	NA

Source: Census Bureau, 2013 American Community Survey, and 2012 and 2014 RRDL Property Data for 808 Units.

Program Modifications

In response to identified program barriers, Minnesota Housing staff, including the Agency's Preservation team, met with representatives from funding partners, area administrators, local lenders, and the Preservation Plus Initiative (MPPI) team to develop underwriting/credit worthiness standards appropriate for the intended owners and to streamline the application process. In 2013, Minnesota Housing sponsored a study through MPPI to explore the nature and challenges threatening unsubsidized affordable housing in Minnesota and to make recommendations for specific policies and strategies to preserve this stock. The report identified financing barriers similar to those seen in the RRDL Program.

> *While very low-interest financing (3-4%) is currently available, the terms are short, usually between five to seven years. Some lenders have settled in a niche of making loans with three year terms which are anticipated to be taken out by long-term after the market stabilizes. The Loan to Value (LTV) for most lenders now falls between 60–85%. Access to debt continues to be more difficult for individual [Do It Yourself] DIY, part-time owners and some small-scale professional owners. These owners are often unaware of availability of such financing, are unwilling/unable to prepare the necessary paperwork, or are already over-leveraged. These DIY/part-time owners also often do not qualify for*

the financing, as lenders are looking beyond the properties for collateral or guarantees for loans, as well as looking carefully at the experience and financial capacity of the owners[3].

In April 2013, the Minnesota Housing board approved several modifications in three general areas to increase small property owners' access to the RRDL Program:

1) Modifications to Underwriting Standards

Properties with existing short-term and variable-rate commercial debt meeting the following conditions were made eligible for an RRDL loan:

- The initial loan amortization schedule, as well as any revised or modified amortization schedule, shall be established to fully amortize the commercial loan or provide that a balloon payment shall not be due before the maturity date of the RRDL loan.
- Commercial loan re-pricing does not require Minnesota Housing to re-subordinate the RRDL Loan.

The Agency made the following modifications to underwriting requirements for individual, sole proprietorship owners. These owners are not required to provide a professionally prepared operating budget, audited financial operating expense statement, or personal financial statement. Instead, owners provide:

- Full tax returns, including IRS Schedule E and K-1, for the past two years
- A credit report demonstrating current payment of mortgages and real estate taxes and proof of no unsatisfied collections, judgments, and property in foreclosure
- Evidence of a strong market by evaluating the property's condition, proximity to jobs and services, vacancy rates, etc.

2) Simplification/Reduction of Application Materials

Minnesota Housing reduced the number of materials that individual owners of smaller properties have to submit from 41 to fewer than 20 items. These efforts included:

- Abbreviating the Design Standards and Sustainability Requirements for Limited Scope Projects to replace complex Minnesota Housing Standards and Green Communities Standards
- Streamlining the market study process and relying instead on the RRDL Community and Project Profile Tool and the tool's documentation of local housing and economic trends
- Eliminating 15 forms and documents that are more suitable for mainstream multifamily loan processing

The modifications to the underwriting standards and the simplification of application materials increased participation of properties with 1-4 units. As shown previously in Figure 4, the number of participating units in properties with 1-4 units increased from 2.8% to 4.5%. However, this is still much smaller than the overall share of rental units in 1-4 unit properties across all of Greater Minnesota (51.2%). These units in small properties remain significantly underrepresented in the RRDL program.

---

[3] *The Space Between, page 32* – June 2013, One Roof Global Consulting 528 Hennepin Avenue, Suite 418 Minneapolis, MN 55403 www.1roofglobal.com.

Note: The Space Between report and RRDL evaluation were developed concurrently, but the reports were finalized months apart.

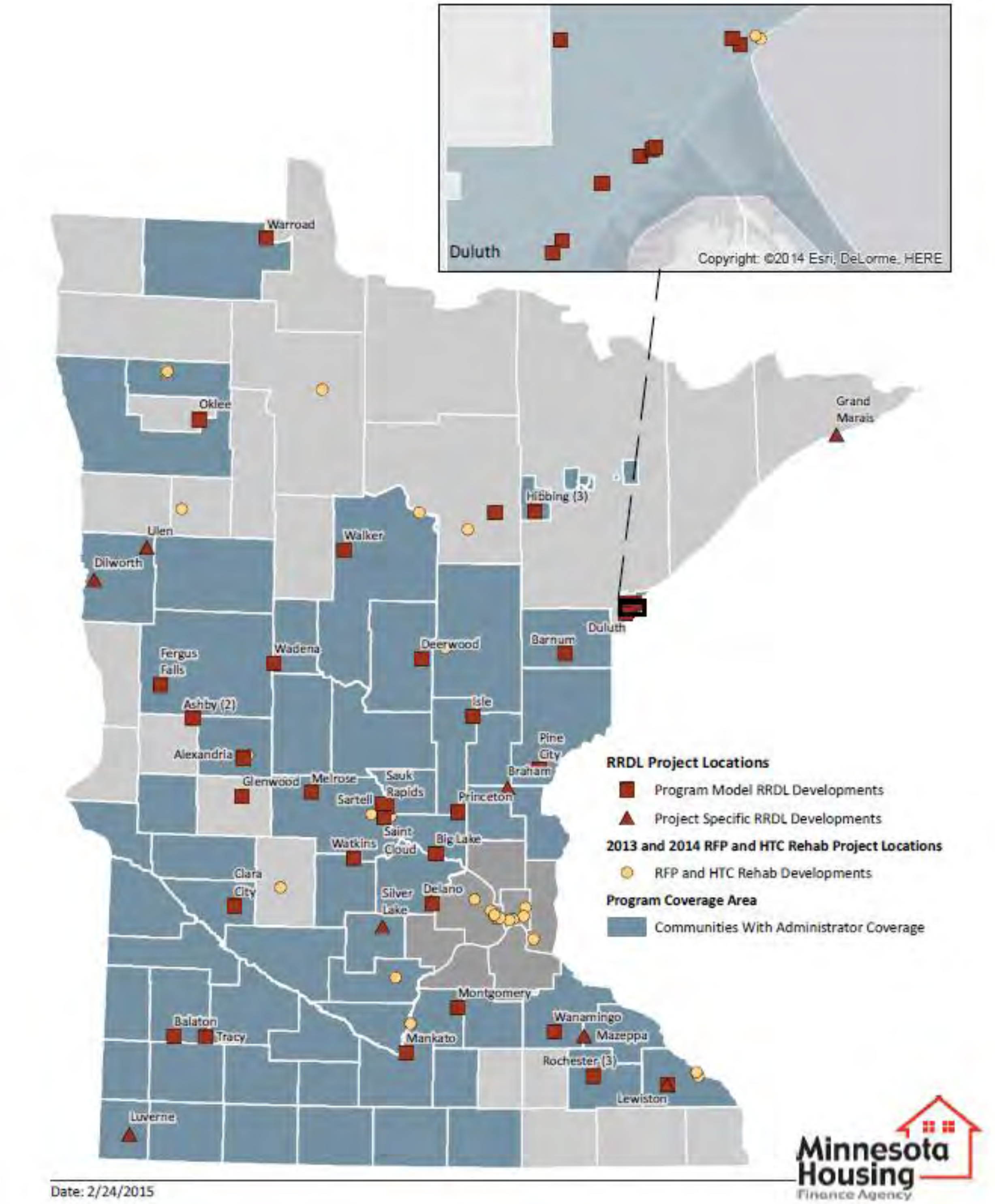
Figure 4 also shows that the share of units in properties with 5-19 units increased, and the share with 20 or more units decreased.

3) Provide Financing Where Other Resources are not Available or Attainable

Figure 5 is a map of the properties receiving RRDL assistance, which shows a wide disbursement across Greater Minnesota, particularly in areas that did not receive rehabilitation funding in the 2013 and 2014 Consolidated RFP. The RRDL Program succeeded in providing financing opportunities in areas of the state with few other options.

This objective was accomplished, in part, by giving a preference to applications that assist properties in areas of the state that are not Participating Jurisdictions in HUD's HOME program. In addition, a project may not receive both RRDL funds and Consolidated RFP funding for the 5 years before or after the closing of the RRDL loan. RRDL also furthered this objective by strengthening partnerships with local HUD Small Cities Development Programs and Lead Grants over the past year, which means RRDL funds are now used to finance improvements not eligible under these programs. Also, when assessing non-RRDL financing sources in RRDL projects, outside sources represented on average less than one-third of the total development cost. This share is much lower for 1-4 unit properties, where the only outside sources of funding were the RRDL's required minimum contribution from the owner, and in some instances, small Lead Removal Grants. This information confirms the limited availability of other resources to stabilize small affordable rental housing stock.

Figure 5: Rental Rehabilitation Deferred Loan Pilot Program Activities 2012-2015 and 2013-2015 Minnesota Housing Multifamily RFP Rehabilitation Projects



Objective 3: Develop a program that depends on a network of highly capable, local administrators to deliver, administer, and oversee the program with minimal Minnesota Housing staff involvement.

The program has a limited network of eight administrators; however, the network's service area is broad. It covers approximately two-thirds of Greater Minnesota and represents 80% of the rental housing in Greater Minnesota. The eight administrators cover 54 counties and five cities. The largest service area comprises 26 counties.

Having a single administrator service large areas presents challenges.

- While the most capable and qualified administrators typically cover large regions of Greater Minnesota, they generally focus on larger (12 to 36 unit) properties. It has not been financially feasible or efficient for these administrators to travel great distances to assist 1-4 unit properties, which require much more hands-on support.
- Administrators with a good knowledge of the affordable rental stock (e.g. city-based) and owners in specific communities had better results targeting small 1-4 unit rental properties, but they still struggled with implementation.

To carry out their work, administrators are allowed to charge a processing fee based on their actual costs. Fees are higher for administrators serving large areas of the state and smaller for city-based program administrators. On average, administrator processing fees have represented 5% of the project's RRDL loan. Developer fees are not allowed, but RRDL Program funds are allowed to finance related rehabilitation soft costs.

Prior to RRDL, Minnesota Housing provided deferred loans for rental rehabilitation with HUD HOME funds. While reporting in the Agency's time-tracking system did not collect sufficient information to clearly compare administrative costs for the two programs, administrators and Minnesota Housing staff who worked on both programs indicated that the RRDL Program is less burdensome from an administrative perspective, but they still had concerns regarding the loan processing requirements and long timeframes under RRDL. The mid-program modifications resulted in a more streamlined application process; however, the amount of administrative support from the Agency did not decline as much as expected, particularly for owners of 1-4 unit properties.

Without local support, owners of 1-4 unit properties find it impossible to complete the application process, and this deterred potential applicants. The additional support required is burdensome for small organizational administrators or administrators covering large geographic areas.

According to *The Space Between* report, preservation of unsubsidized, affordable, rental properties should be guided by the following principles:

- Recognize that this is different than subsidized affordable rental properties
- Capitalize on the lack of rules/dictates
- Use local touch/knowledge
- Pay attention to regional context
- Choose partners/targets wisely
- Monitor, evaluate, and actively manage[4]

---

[4] *The Space Between, page 47* – June 2013, One Roof Global Consulting 528 Hennepin Avenue, Suite 418 Minneapolis, MN 55403 www.1roofglobal.com

Objective 4: Develop a right sized loan product in house to preserve affordable rental housing in areas not covered by a local administrator or owned by participating administrators.
Minnesota Housing directly processed funding for eight Specific Projects ($2.2 million) and stabilized 194 units. The Agency used an RFP to allocate these in-house funds. The process allowed three nonprofit housing development owners, who were also RRDL administrators, to preserve affordable rental units at risk within their service area. The other five developments preserved USDA Rural Development and HUD Section 8 units in properties that would not have been competitive in Minnesota Housing's Consolidated RFP.

This process was effective but burdensome for RRDL Program staff to implement due to the notification and set-up prerequisites, application processing, and scoring and selection time associated with an RFP process that funded just 8 developments over three years. The last of the three RFPs resulted in less funding requested than funds available. Properties that could have used the funding often required more timely assistance than was possible.

Overarching Program Observations

In the fall of 2014, RRDL Program staff met with numerous RRDL Program stakeholders for feedback. The following common themes were observed:

- Owner capacity and experience varies greatly and is often based on the size of the property.
- Local housing market trends and economic factors vary greatly across the state, which influences best practices for marketing, underwriting, and financing.
- Although timeframes have improved, small scale owners find it difficult to complete the process and the delays increase carrying costs for owners and increase expenditures for administrators.
- Administrator capacity and/or budget constraints hinder the application process and quality, limiting program production.
- The two delivery systems of funding, through local administrators and directly through Minnesota Housing, were effective, but with further refinement, they could be more efficient to better serve individual, do it yourself owners of 1-4 unit properties.

Recommendations

Proposed Program Modifications

Staff proposes four key program changes to streamline the process, increase efficiency, increase administrator capacity and program coverage, and more effectively target and serve small properties and communities that have the largest need.

1. Improve Delivery of Specific Project Funding

For loans processed directly by Minnesota Housing, replace the annual Request for Proposal (RFP) with a pipeline application process to improve delivery responsiveness and efficiency. This will be particularly beneficial to critical need or time-sensitive developments when all other financing options have been exhausted. Historically, slightly more than 25% of program funds have been reserved for Specific Projects. Staff will continue to set aside a similar portion of program funds in a Specific Project pipeline, where funds may be reallocated as appropriate and will be available on a first-come, first-served basis.

For Specific Project Model properties:

- Forgive up to 10% of the debt for maintaining the applicable income and rent requirements and annual compliance reporting until the loan is repaid
- 5% will be forgiven each year of the last two years of the RRDL loan

Eligibility for RRDL Specific Project pipeline funds will comply with current program requirements while including the following additional conditions:

- Require properties to have a minimum of eight units
- The requested amount must be the final source needed to complete the financing package
- The property must be outside of an RRDL Program Model administrator's service area or owned by an RRDL Program Model administrator and located within their service area
- The project must meet one of the following threshold requirements:
    - The proposal is for immediate emergency repairs threatening the health and safety of existing tenants
    - The proposal has existing funding commitments that cannot be extended and will be otherwise lost
    - The proposal documents a unique housing opportunity that would be lost
    - The proposal advances Minnesota Housing strategic priorities as outlined in the RRDL Guide
        - For example, RRDL may provide financing for repairs on a property that are necessary to extend an existing rent or operating subsidy that would otherwise expire or be terminated.

2. Improve Delivery of Program Model Funding

Allow administrators to contract with local specialists to keep administration and borrower costs low. For example, allow sub-contracting with qualified local rehabilitation specialists to perform inspection and construction oversight to contain administrator expenses for additional travel to remote properties. Administrators must ensure the contract will expand or improve customer service while reducing or containing costs and fees. Contracted services will not duplicate administrator services or expenses. Administrators will assume full responsibility for sub-contractors performance with respect to the RRDL Program and full liability the work performed.

3. Increase Participation of Underrepresented 1-4 Unit Properties

In Greater Minnesota, 51.2% of the rental housing units are in properties with 1-4 units. In 2013, RRDL Program Model modifications designed to help administrators attract more owners of 1-4 unit properties increased participation from 2.8% to 4.5%. Participation of these owners is still not proportional to their share of the market.

Currently, 25% of the debt may be forgiven for all loans, 5% each year over the last five years of the RRDL loan term for maintaining the applicable income and rent limits and compliance requirements. To further encourage the participation of 1-4 unit properties while maintaining the incentives for properties with 5 or more units, the following modifications are recommended:

For Program Model properties not qualified for a fully forgivable loan:

- Forgive up to 10% of the debt for maintaining the applicable income and rent requirements and annual compliance reporting until the loan is repaid
- 5% will be forgiven each year of the last two years of the RRDL loan

For Program Model properties with 1-4 units and an RRDL loan of $100,000 or less:

- Forgive up to 100% of the debt after 10 years for maintaining the applicable income and rent requirements and annual compliance reporting when the following conditions are met:
    - The owner is an individual, sole proprietorship, or legal entity made up of an individual and a spouse, as appropriate
    - The property is existing permanent residential rental housing that is owner-operated and located in a participating RRDL administrator service area
    - The rehabilitation addresses conservation, health and safety, code compliance items, or improvements required to maintain rental license or rental assistance

Staff recommends reserving a portion of the program allocation for the biennium to provide fully forgivable loans to this underserved segment of rental housing stock in Greater Minnesota. Twenty percent of funds are potentially 100% forgivable and will be reserved for 1-4 unit properties. The remaining 80% of funds are 10% forgivable and will be reserved be for all other properties. Administrators can apply to one or both of these loans, but they need to apply separately for each allocation. These modifications are expected to increase the share of RRDL assisted properties with 1-4 units from 4.5% (25 units) to 9.6% (53 units).

The reduction of funds forgiven for projects with more than 4 units should not greatly affect the share of larger properties improved. These adjustments may result in a small increase in the portion of program funds forgiven, dependent upon the amount reserved for the fully forgivable loans, but Minnesota Housing research indicates this approach should persuade more owners of 1-4 unit properties to participate. These adjustments will also offer further insight into the characteristics of this demographic through their participation in the RRDL program (see Figure 4).

By reserving 20% for fully forgivable loans, and the rest at 10% forgiveness, potentially up to 28% of the biennial allocation may be forgiven when all loans mature and are partially repaid or forgiven.

It is possible the Agency could also encourage more rehabilitation of 1-4 unit properties by increasing or eliminating the 20% cap that is reserved for fully forgivable loans. The Agency could also choose a forgiveness level higher than 10% for the other loans to ensure that they remain attractive. Both of these options would reduce the amount of funding coming back to the Agency as loan repayments, but they may be necessary to reach the target market.

Allowing 100% forgiveness of 1-4 unit properties and reducing the loan term to 10 years also permits additional streamlining of the RRDL program, including:

- Simplifying due diligence and legal documents, which are overly burdensome for individuals, sole proprietorships, or legal entities made up of an individual and a spouse, as applicable
- Aligning the term of the loan more closely with useful life of the improvements and lessening Minnesota Housing’s future compliance monitoring and loan servicing responsibilities

A proposed forgivable RRDL loan is comparable to the terms of the Single Family Rehabilitation Loan Program (RLP), which offers forgivable deferred loans to homeowners to finance basic home repair and improvements. The RLP program offers:

- The maximum loan amount is up to $27,000 per unit for single family homes and owner occupied Planned Unit Developments, townhomes, condominium units, and duplexes.
- The maximum loan term is 15 years, depending on property type and loan amount.
- The loan is fully forgiven if borrower does not sell, transfer title, or cease to occupy the property during the loan term.
- RLP statewide income limits are 30% of the metro AMI. The income limit for a family of four is $26,000.

A $100,000 investment under RRDL over 10 years is roughly $200/unit/month for a 4 unit building. This is comparable to a very shallow operating subsidy grant over the same period.

4. Increase the Minimum Owner Equity Contribution
Change the current minimum contribution of 5% of the project soft costs to a minimum contribution based on a percentage (3%) of the total RRDL loan amount. This will help offset the increase in loan forgiveness, increase an owner's personal investment in the project, and establish a contribution that is based on the RRDL loan amount rather than costs that can fluctuate.

Non-material Recommendations for Program Improvement

Recommendations for Specific Project In-house Program Delivery

- Give priority to properties where tenant-based rental assistance is underutilized due to lack of housing units that meet Housing Quality Standards (HQS), which is an issue in Greater Minnesota
- Continue to coordinate with Minnesota Housing's Preservation Team/Preservation Plus Initiative to ensure alignment with our strategic priorities, our preservation efforts, and local critical needs

Recommendations for Properties with 1-4 Units

- Have Minnesota Housing market the RRDL Program directly to owners of small properties
- Allow administrators to target specific communities within their service area to assist owners of 1-4 unit properties
- Encourage administrators to work closely with city, housing authority, code compliance, and other local partners to directly market the program to owners and pair RRDL funds with energy rebates, lead grants, and other local community incentives
- Investigate feasibility of processing 1- 4 unit properties through the existing network of Single Family lenders currently processing Home Improvement Loans, Rehab Loans, or other programs

Recommendations for Properties with 5-50 units

- Partner with DEED, USDA RD, HUD, and other federal, state, and local funding to leverage RRDL funds
- When providing RRDL funding to subsidized properties, require them to extend the term of financing and rental or operating assistance whenever possible

Recommendations to Increase Program Coverage in Greater Minnesota

- Continue to vigorously market the program and recruit highly-skilled administrators who will administrate RRDL with minimal Minnesota Housing involvement
- Encourage and implement mentorship programs between successful administrators and interested entities in unserved areas
- Learn from other funder/lender successes in unserved areas

Recommendations for Loan Terms/Loan Closing

- Maintain current, non-recourse, 0% deferred payment loan structure
- Allow recourse RRDL loans as a condition for financing or ownership waivers on behalf of borrowers
- Investigate feasibility of amortizing debt on smaller properties and for RD properties to secure RD operating income. In a few cases, these owners expressed more comfort in taking on a low or no interest amortizing loan rather than a deferred loan payable at the end of the affordability period. This requires further investigation to determine the borrower’s appetite for this product and the servicing options and costs. Single Family is currently investigating the feasibility of offering a similar product through the existing network of Single Family lenders.

Recommendations around Underwriting Requirements and Credit Review

- Retain the current RRDL “light touch” Underwriting and Credit Worthiness standards and approve considerations for waivers with additional loan security when appropriate
- Monitor effectiveness of the standard requirements and continue to refine guidelines to design Credit Worthiness and Underwriting Standards so they are fine tuned to the program customer and provide acceptable levels of risk

Recommendation around Administrator Coverage and Capacity

- Work collaboratively with Minnesota Housing's Single Family and Community Development leadership and local and regional housing partners to identify opportunities to enhance local capacity through training, mentorship, and succession planning

Recommendations around Application Selection and Loan Submission/Due Diligence Materials

Program Projects - Small Properties

- Offer RRDL administrators more training and tools to help them work efficiently
- Reevaluate all required RRDL documents to identify purpose and authority, and eliminate or modify as necessary
- Continue to streamline the process and explore how technology could better support the loan process

All Properties

- Retain Limited Scope Design and Sustainability Standards and place priority on health, safety, and energy conserving improvements and compliance with Housing Quality Standards (HQS) where rental assistance vouchers go unused due to lack of suitable housing units.

Attachments

- RRDL Program 2016-17 Term Sheet
- RRDL Specific Project and Administrators' Activity by Units

<table>
<tr><th rowspan="2"></th><th colspan="2">2016-17 Rental Rehabilitation Deferred Loan Pilot Program (RRDL)
Funds may be used for moderate rehabilitation of existing permanent rental properties outside the seven-county metropolitan area. Funds are used to preserve affordable housing and to address specific and critical needs in rental housing markets.</th></tr>
<tr><th>Specific Project and Program Model Requirements</th><th>Program Model Requirements for 1-4 Unit Properties</th></tr>
<tr><td>RRDL Funding Provider</td><td>For Program Model loans, contact the nearest RRDL administrator.
For Specific Projects outside the RRDL administrator areas or those projects owned by administrators, contact Minnesota Housing to apply to RRDL Pipeline.</td><td>Contact the nearest RRDL administrators.</td></tr>
<tr><td>Eligible Property</td><td>Existing permanent residential rental housing.
Contact RRDL administrator for additional property requirements.
Access to the Specific Project pipeline requires a minimum of 8 units per property.</td><td>Existing permanent residential rental housing with 1-4 units that is owner-operated and located in a participating RRDL Administrator service area</td></tr>
<tr><td>Eligible Borrower</td><td>Individuals, private developers, nonprofit organizations, units of local government, and tribal housing corporations.</td><td>Individuals, sole proprietorships, or legal entity made up of an individual and a spouse, if appropriate.</td></tr>
<tr><td>Rent and Occupancy Requirements</td><td colspan="2">Annual income of tenant households may not exceed the greater of 80% of state or area median income.
Monthly unit rent may not exceed the lesser of: (1) average wages published by the Minnesota Department of Employment and Economic Development for 2015 or (2) rents affordable at 80% of HUD AMI.</td></tr>
<tr><td>Loan Amount Limits</td><td>$35,000/unit for 1 or 2 unit properties, or $25,000/unit and up to a maximum of $300,000.</td><td>$35,000/unit for 1 or 2 unit properties, or $25,000/unit and up to a maximum of $100,000.</td></tr>
<tr><td>Term /Amortization</td><td>Deferred Loan with a 0% Interest Rate.
Non-recourse/secured with mortgage*
Specific Project: loan term is 30 years.
Program Model: minimum loan term is 10 years for loans $100,000 or less, or 15 years for loans more than $100,000.
All loans may be extended to 30 years or , if longer, the remaining term of any senior debt in place at the time of closing of the RRDL loan.</td><td>Deferred Loan with a 0% Interest Rate.
Non-recourse/secured with mortgage*
Loan term is 10 years</td></tr>
<tr><td>Eligible Repairs</td><td colspan="2">Must be permanent general improvements that have not been started prior to the loan closing. Permanent general improvements include renovations or repairs to an existing structure and replacement of mechanical systems or appliances that materially preserve or improve the basic livability, safety, or utility of the property or improve energy efficiency.

Owners seeking fully forgivable loans must first address conservation, health and safety, code compliance items, or improvements required to maintain rental license or rental assistance.</td></tr>
<tr><td>Rehabilitation Standards</td><td colspan="2">Comply with all applicable health, fire prevention, building, housing codes and standards, and Minnesota Housing's Physical Needs Assessment, Limited Scope Project Abbreviated Design Standards and Limited Scope Project Sustainability Requirements. Asbestos, radon and lead testing, as applicable.</td></tr>
<tr><td>Requirements for Loan Forgiveness</td><td>Up to 10% of the debt may be forgiven for maintaining the applicable income/rent and compliance requirements, until the maturity and repayment of the loan. Five percent will be forgiven each year of the last two years of the loan.</td><td>Up to 100% of the debt may be forgiven for maintaining the applicable income/rent and compliance requirements for the full 10 year term of the loan.</td></tr>
</table>

	Specific Project and Program Model Requirements	Program Model Requirements for 1-4 Unit Properties
Minimum Affordability Period	If a loan is paid in full early, the income and rent restrictions for the assisted unit(s) will remain in place as follows: • Loans with a~~n initial~~ 10 year term shall have a 5 year Minimum Affordability Period • Loans with a~~n initial~~ 15 year term shall have a 10 year Minimum Affordability Period • Loans with a longer ~~initial~~ term shall have a 15 year Minimum Affordability Period	If a loan is paid in full early, the income and rent restrictions for the assisted units will remain in place for a 10 year Minimum Affordability Period.
Loan Prepayment	All RRDL Program loans may be prepaid in full at any time; however, rent and income restrictions will remain in place and annual reporting will be required for the applicable Minimum Affordability Period. In some circumstances, the Borrower may appeal for release from all RRDL Program loan requirements prior to the end of the Minimum Affordability Period, subject to Minnesota Housing's approval.	
Fees	Administrators may charge an application fee. For loan prepayment after the Minimum Affordability Period: fee equal to the greater of ½ of 1% of the outstanding RRDL Program loan amount or $1,500. For loan prepayment before the Minimum Affordability Period: additional fee of 3.5% will be charged on the full loan amount for each remaining year of the Minimum Affordability Period.	
Loan Type	Specific Project Loans: end loans. Program Model Loans: end or construction loans.	Program Model Loans: end or construction Loans.
Owners Contribution	Owners are required to contribute to the payment of the rehabilitation expenses, contributing at minimum an amount equivalent to 3% of the total amount of RRDL loan.	
Transfers of Ownership	A loan may be assumed, contingent on all of the following: • Minnesota Housing's review and approval of the proposed ownership entity • Assumption of all contractual obligations with Minnesota Housing • Payment of a fee equal to the greater of ½ of 1% of the outstanding RRDL loan amount or $1,500	
Compliance Monitoring Requirements	Borrowers are required to provide annual rent and income data and owner's certification through the Minnesota Housing Property Online Reporting Tool (PORT) until the loan is repaid or forgiven. Recipients are also subject to periodic physical property inspections.	
Program Contact	Program Model: refer to list of RRDL Administrators found at mnhousing.gov Susan Haugen: susan.haugen@state.mn.us; 651.296.9848 Adam Connell: adam.connell@state.mn.us; 651.296.4452	
~~Affordability and Loan Term Extension *~~	~~A loan may be extended at the end of the RRDL loan term for a minimum additional period of 10 years. The Borrower must agree to maintain the rent and income restrictions and report annually for the duration of the extended loan term. Minnesota~~	

RRDL Specific Project and Administrators' Activity by Units

2012 Administrative Agreements							
Loans Closed	**Targeted Types of Properties**	**Administrators' Pipelines***	**Loans Submitted to Minnesota Housing**	**Loans in Construction**	**Construction Completed**	**Totals**	**Administrator's Goals**
Arrowhead	1-10 units buildings	0	0	9	0	9	27
Central	24 and more unit buildings	0	15	88	137	240	128
HRA of Clay County	1-24 and more unit buildings	11	24	16	0	51	87
Lakes and Pines	1-10 unit buildings	0	0	0	8	8	22
Southwest	11-24 unit buildings	0	39	32	92	163	133
Southeastern	1-24 and more unit buildings	45	0	0	0	45	32
1Roof	1-10 units buildings	9	6	13	2	30	28
Subtotal		65	84	158	239	546	457

2014 Administrative Agreements							
Loans Closed	**Targeted Types of Properties**	**Administrators' Pipelines**	**Loans Submitted to Minnesota Housing**	**Loans in Construction**	**Construction Completed**	**Totals**	**Administrator's Goals**
Central	24 and more unit buildings**	0	30	51	0	81	131
HRA of Clay County	1-24 and more unit buildings	13	0	0	0	13	22
Southwest	11-24 unit buildings	121	0	0	0	121	70
Southeastern	1-24 and more unit buildings	0	0	0	0	0	33
St. Cloud	24 and more unit buildings	0	0	54	0	54	24
1Roof	1-10 unit buildings	51	4	0	0	55	40
Subtotal		185	34	105	0	324	320

2012-2014 Specific Project Properites							
Loans Closed	**Targeted Types of Properties**	**Administrators' Pipelines**	**Loans Submitted to Minnesota Housing**	**Loans in Construction**	**Construction Completed**	**Totals**	**Administrator's Goals**
Adminstrator Total		**250**	**118**	**263**	**239**	**870**	**777**
Specifc Project Properties	10-60 unit buildings	**0**	**52**	**82**	**60**	**194**	**N/A**
Grand Total		**250**	**170**	**345**	**299**	**1064**	**777**

* Loans in Administrator’s Pipeline represent applications that can be in any stage from just received to ready for submission with work scope, bids, and title work. Progress is tracked monthly.

** Central set aside $800,000 to assist properties with 8-24 units in a localized area.

AGENDA ITEM: 8.A
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: Legislative Update

CONTACT: Ryan Baumtrog, Assistant Commissioner for Policy and Community Development
ryan.baumtrog@state.mn.us

Katie Topinka, Legislative Director, Policy and Community Development
Katie.topinka@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 2015 legislative session ended on May 18. The legislature enacted a budget for FY 2016-17 and staff will provide a written summary of the session to members at the meeting. State appropriations are approximately 7 percent of the agency's total sources of funds.

FISCAL IMPACT:
Fiscal impact will be shared at the meeting.

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):
- Legislative Summary (to be provided at meeting)

AGENDA ITEM: 9.A.
MINNESOTA HOUSING BOARD MEETING
May 28, 2015

ITEM: 2015 Affordable Housing Plan and 2013-15 Strategic Plan: Second Quarter 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 second quarter progress report for the 2015 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):

- 2015 Affordable Housing Plan and 2013-15 Strategic Plan: Second Quarter Progress Report

Board Agenda Item: 9.A
Attachment: Progress Report

2015 Affordable Housing Plan and 2013-15 Strategic Plan
Second Quarter Progress Report
(October 1, 2014 – September 30, 2015)
May 21, 2015

Overview

The Tables 1-4 summarize the Agency's activities through the second quarter of the 2015 AHP. Overall, program activity is progressing as expected with the Agency distributing 63% of the AHP funds through the second quarter. Pipeline programs that provide financing throughout the year should have committed roughly 50% of their funds and achieved 50% of the production goal. RFP programs that have already committed their funds for the year should be approaching 100%. Of special note:

- Home mortgage production has been robust, reaching 60% of the year-end forecast in the second quarter, and we just now entering the prime home buying season. Production figures for April were record setting. This level of production is putting financial pressure on the Agency's budget down-payment and closing-cost assistance. The AHP has already been amended once to accommodate this production and will likely need to be amended again.

- Production of rental new construction has been extremely strong, exceeding the year-end forecast by 73%. The extensive use of 4% Housing Tax Credits supported the higher than expected production level. In addition, the Agency allocated a larger share of RFP and tax credit funding to new construction and a smaller share to rehabilitation than previous years. With the very low rental vacancy rates around the state, this is an appropriate shift.

- For pipeline programs that are below the 50% benchmark, staff will continue to closely monitor program activity; however seasonality (i.e. program activity varying by season) may be the issue and production will pick up on its own. Asset Management is the only pipeline program for which the Agency is significantly short of the forecast. In the last year, we have reoriented this program to focus on shorter-term and immediate needs of the properties in our portfolio, and we are directing properties to the RFP process for longer-term and permanent needs. With the more targeted program focus, forecasting the amount and timing of program demand is more uncertain.

Table 5 at the end of this document shows funding changes in the 2015 AHP since the Board approved it in September of 2014.

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

Quarter 2 of 2015 AHP (50% through AHP)

	Original AHP Forecast	Actual To-Date	Portion of AHP Forecast Completed
Single Family Production – Homes			
1. First Mortgages (Net Commitments)	3,003	1,787	60%
2. Other Opportunities*	314	231	74%
3. Owner-Occupied Home Improvement/Rehabilitation	1,651	686	42%
4. Total	*4,968*	*2,704*	*54%*
Homebuyer Education, Counseling and Training - Households			
5. Homebuyer Education, Counseling, and Training (HECAT)*	14,506	6,038	42%
Multifamily Production – Rental Units			
6. New Rental Construction	877	1,520	173%
7. Rental Rehabilitation	5,185	4,748	92%
8. Asset Management	240	8	3%
9. Total	*6,302*	*6,276*	*100%*
Rental Assistance and Operating Subsidies - Households			
10. Agency Funded Rental Assistance and Operating Subsidies*	3,585	2,688	75%
11. Section 8 and 236 Contracts	31,106	31,229	100%
12. Total	*34,691*	*33,917*	*98%*
Homeless Prevention			
13. Family Homeless Prevention and Assistance Program (FHPAP)* & Housing Opportunities for Persons with AIDS (HOPWA)	9,685	3,767	39%
Build Sustainable Housing			
14. Percentage of New Construction or Rehabilitation Units that Meet Standard of Green Communities Certification or B3:			
a. Single Family	50%	56%	**
b. Multifamily	95%	78%	**
Increase Emerging Market Homeownership			
15. Percentage of Mortgages Going to Emerging Market Households	27%	30%	**
Earn Revenue to Sustain Agency and Fund Pool 3			
16. Return on Net Assets – State Fiscal Year 2015***	**	$14.3 million	**
17. Annualized Return on Net Assets (%) – State Fiscal Year 2015***	**	2.5%	**

* Funds for Habitat for Humanity, HECAT, multifamily rent assistance and operating subsidies, and FHPAP are committed by the Board in July-September, at the end of an AHP. Thus, funds committed under the 2014 AHP (in July-September 2014) fund program activity in 2015 (October 1, 2014 to September 30, 2015). The Board will not commit 2015 AHP funds for these programs until July-September 2015, which will support program activity in 2016. To reflect 2015 program activity for these programs, this table shows the households supported in 2015 with 2014 AHP funds. For all other programs, the table shows the households and housing units supported by funds provided in the 2015 AHP.

** Not Applicable.

*** Minnesota Housing does not forecast return on net assets.

Table 2: Distribution of Resources
Quarter 2 of 2015 AHP (50% through AHP)

	AHP Forecast	Actual To-Date
18. Percentage of Funds Committed Under the AHP	>95%	63%

Table 3: Management of Loan Assets
Quarter 2 of 2015 AHP (50% through AHP)

	AHP Forecast	Actual To-Date
19. Delinquency Rate for Combined Whole Loan & MBS Single-Family Portfolio (March 31, 2015)	2.58%*	4.18%**
20. Foreclosure Rate for Combined Whole Loan & MBS Single-Family Portfolio (March 31, 2014)	0.59%*	1.16%**
21. Percentage of Multifamily Developments with Amortizing Loan on Watch List	Under 10%	7.0%
22. Percentage of Outstanding Multifamily Loan Balances on Watch List	Under 10%	4.4%

* This is a 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 2015.
**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.

Discussion of Items in the Table

- **Line 1:** Lending volume for single-family first mortgages has been very robust, with production at 60% of the forecast at the end of the second quarter, and we had not yet entered the prime home buying season. Kicking off the third quarter, production for April was at record levels. To support the strong production, we have also had greater than expected use of down-payment and closing-cost assistance.

- **Line 2:** Production for other housing opportunities is a little lower than expected. Under the October RFP selections, we allocated all the funds budgeted for the Community Homeownership Impact Fund; however, unit production was less than forecasted because we allocated more funds to new construction than forecasted. New construction typically requires a higher subsidy per home than rehabilitation and down-payment assistance, which reduces the number of homes assisted. Production under the Habitat for Humanity and Bridge for Success programs has proceeded as expected

- **Line 3:** Owner-occupied home improvement/rehabilitation production is a little behind the forecast, especially for the Fix-Up Fund. Production for that program should pick up this spring and summer. Historically, production ramps up in May and June and peaks between July and October. We will continue to monitor production for this program.

- **Line 4:** Overall, production in the Single Family – Homes category has been strong, particularly in the first-mortgage area.

- **Line 5:** Production for the HECAT program is a little slow, 42% of year-end forecast when we are 50% through the year. After the second quarter, we will be in home-buying season; and participation in homebuyer education should pick up. In addition, with the subsiding foreclosure crisis, the demand for foreclosure counseling is diminishing.

- **Line 6**: Funding of rental new construction has been extremely strong, with unit production exceeding the year-end forecast by 73%. This occurred largely because the Agency's funding per unit was much lower than expected with extensive use of 4% Housing Tax Credits. Because 4% credits are not budgeted in the AHP, they are an outside funding source and not counted in the Agency's funding per unit. A year ago, Agency funded projects received roughly $14 million in syndication proceeds from 4% tax credits. This year's projects will receive about $84 million – a $70 million increase. This increase was much larger than expected.

  In addition, a larger share of RFP and tax credit funds went to new construction than forecasted, and a smaller share went to rehabilitation. With very low rental vacancy rates around the state, this shift is appropriate.

  With the completion of the RFP and tax credit selections in October, additional activity will be limited.

- **Line 7:** Rental rehabilitation production is on track at 92% of the year-end goal. The extensive use of 4% credits offset the smaller share of RFP and tax credits funds that went to rental rehabilitation (with more going to new construction). With the completion of the RFP and tax credit selections, additional activity will be limited.

- **Line 8:** Under Asset Management, unit production has been slower than expected. We have only reached 3% of the year-end forecast. In the last year, we have reoriented this program to focus on shorter-term and immediate needs of the properties in our portfolio, and we are directing properties to the RFP process for longer-term and permanent needs. With the more targeted program focus on immediate needs, forecasting the amount and timing of program demand is more uncertain.

- **Line 9:** Overall, rental production is progressing as expected.

- **Line 10:** With respect to Agency financed rental assistance and operating subsidies, production is on track. The number of assisted households will increase over the course of the year as the Section 811 pilot (rent assistance for people with disabilities) ramps up and tenant turnover occurs in the Agency's other rent assistance programs.

- **<u>Line 11:</u>** Section 8 contract administration is performing as expected. These project-based units will be supported throughout the year.

- **<u>Line 12:</u>** Overall, rent assistance and operating subsidy production (federal and state) is on track.

- **<u>Line 13:</u>** Assistance provided under FHPAP is performing as expected. Almost 50% of the funds have been disbursed, but the number households assisted is slightly less than expected because the average assistance provided to each household has been higher than expected, reducing the number of households assisted.

- **<u>Line 14:</u>** The majority of 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 Fix-Up Fund (FUF) home improvement 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%.

  Typically, the multifamily percentage is typically close to 100%. In a given year, a couple rehabilitation projects have circumstances that make them exempt from the sustainable design criteria. This year's percentage is lower because of the number of public housing units rehabilitated with a limited scope under the Publically Owned Housing Program (POHP) with proceeds from General Obligation Bonds. These projects fall under the state's B3 green standards, which provide exemptions for limited-scope projects.

- **<u>Line 15:</u>** The Agency continues to meet its goal of serving communities of color or Hispanic ethnicity through homeownership. The Agency estimates that roughly 25% of renter households that are income eligible for Minnesota Housing first mortgages are of color or Hispanic ethnicity. The achievement of 30% indicates that the Agency has no disparities in its lending, which is a challenge in the current credit and regulatory environment.

- **<u>Lines 16 and 17:</u>** The annualized return on net assets is expected to be about 2.5%.

- **<u>Line 18</u>:** The Agency is generally on schedule for distributing its resources, with 63% of the funds committed during the two quarter of 2015. The Agency should be above 50% at this point because the main RFP programs have already distributed their funds for the year. For pipeline programs that are below the 50% benchmark, staff will continue to closely monitor program activity; however seasonality (i.e. program activity varying by season) may be the issue and production will pick up on its own.

- **Lines 19-20:** The Agency's delinquency rate (4.18%) for single family first mortgages (whole loan and MBS) is higher than the market-wide benchmark (2.58%) for Minnesota based on data from the Mortgage Bankers Association. The Agency's foreclosure rate is also higher than the benchmark. This includes all first mortgages originated under the Agency's programs and currently being serviced. The Agency looks closely at delinquency rates for recently originated loans to determine if our policies and practices need to be adjusted. According to USBank, which services our MBS portfolio, our delinquency rate for loans originated and purchased in the last 24 months was 3.12% in April 2015, which is below our "peer" benchmark of 3.34%

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

Changes to 2015 AHP Funding Levels

Table 5 presents changes to the 2015 AHP since the plan was approved by the Board in September 2014. The changes fall into two groups.

- **Changes implemented by staff under authority delegated by the Board.** These changes occur for three reasons. First, the original AHP included estimates for uncommitted state and federal appropriations that carry forward from the 2014 to the 2015 AHP. These estimates were developed in August 2014, two months before the end of the 2014 plan. The changes reflect the reconciliation between the actual and estimated carry forward balances. Second, the AHP includes estimates of loan repayments that will occur during the year and become available for recommitment. To the extent that actual repayments differ from the estimates, adjustments are made. When estimating carry forward balances and loan repayments, staff is generally conservative. Thus, the adjustments generally add funds to the AHP. Third, because the AHP is approved before Congress finalizes federal appropriations for the year, we initially estimate them and then make adjustments. In 2015, the changes reduced funding.

- **Changes adopted by the Board.** At the April 2014 meeting, the Board approved funding adjustments to support the Agency's strong mortgage production, including down-payment and closing-cost assistance. The Board added $170 million for additional home mortgage loans, moved $1 million of Pool 2 funds from the Low and Moderate Income Rental program to Monthly Payment Loans and $1.587 million of Pool 3 funds to Deferred Payments Loans. The Pool 3 funds included $100,000 from HAWK, $287,000 from Single Family Interim Lending, and $1.2 million from the Strategic Priority Contingency Fund.

Table 5: 2015 AHP - Changes in Funding Levels

		2015 AHP Final	Delegated Change	Board Approved AHP Amendment	Total Changes	Revised Budget
	Homebuyer and Home Refinance	**$455,036,200**	**$387,852**	**$172,200,000**	**$172,587,852**	**$627,624,052**
1	Home Mortgage Loans	$400,000,000		$170,000,000	$170,000,000	$570,000,000
2	Targeted Mortgage Opportunity Program	$10,000,000				$10,000,000
3	Mortgage Credit Certificates (MCC)	$20,000,000				$20,000,000
4	Deferred Payment Loans	$7,500,000	$752,826	$1,587,000	$2,339,826	$9,839,826
4a	Deferred Payment Loans Plus	$3,500,000				$3,500,000
5	Monthly Payment Loans	$7,500,000		$1,000,000	$1,000,000	$8,500,000
6	Single Family Interim Lending	$1,600,000		-$287,000	-$287,000	$1,313,000
7	Habitat for Humanity Initiative	$2,000,000				$2,000,000
8	Homebuyer Education, Counseling & Training (HECAT)	$2,186,200	-$364,974		-$364,974	$1,821,226
8a	Enhanced Homeownership Capacity Initiative	$650,000				$650,000
8b	Homeowners Armed with Knowledge (HAWK)	$100,000		-$100,000	-$100,000	$0
	Home Improvement	**$28,575,000**	**$0**	**$0**	**$0**	**$28,575,000**
9	Home Improvement Loan Program	$19,975,000				$19,975,000
9a	Targeted Home Improvement Interest Write-Down	$0				$0
10	Rehabilitation Loan Program (RLP)	$8,600,000				$8,600,000
	Rental Production- New Construction and Rehabilitation	**$189,639,605**	**$807,315**	**-$1,000,000**	**-$192,685**	**$189,446,920**
11	Multifamily Amortizing First Mortgages	$95,000,000		-$1,000,000	-$1,000,000	$94,000,000
11a	Low and Moderate Income Rental (LMIR)	$85,000,000		-$1,000,000	-$1,000,000	$84,000,000
11b	MAP Lending (Multifamily Accelerated Processing)	$10,000,000				$10,000,000
12	Flexible Financing for Capital Costs (FFCC)	$4,500,000				$4,500,000
13	Low-Income Housing Tax Credits (LIHTC)	$8,582,340	$130,133		$130,133	$8,712,473
14	Affordable Rental Preservation	$17,106,078	$281,208		$281,208	$17,387,286
14a	Preservation Affordable Rental Initiative Fund (PARIF)	$9,331,232	$1,623,310		$1,623,310	$10,954,542
14b	HOME Affordable Rental Preservation (HARP)	$7,774,846	-$1,342,102		-$1,342,102	$6,432,744
15	Housing Trust Fund (Capital from HIB)	$43,853,648	$102,349		$102,349	$43,955,997
16	Publicly Owned Housing Program (POHP)	$20,197,539	$133,839		$133,839	$20,331,378
17	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$400,000	$159,786		$159,786	$559,786
	Rental Assistance Contract Administration	**$181,392,671**	**$0**	**$0**	**$0**	**$181,392,671**
18	Section 8 - Performance Based Contract Administration	$112,500,000				$112,500,000
19	Section 8 - Traditional Contract Administration	$68,250,000				$68,250,000
20	Section 236	$642,671				$642,671
	Resources to Prevent and End Homelessness (Non-Capital)	**$29,115,921**	**$110,952**	**$0**	**$110,952**	**$29,226,873**
21	Housing Trust Fund (HTF)	$15,231,963	-$339,257		-$339,257	$14,892,706
22	Ending Long-Term Homelessness Initiative Fund (ELHIF)	$1,972,796				$1,972,796
23	Bridges	$2,959,461	$399,669		$399,669	$3,359,130
24	Section 811 Demonstration	$235,000				$235,000
25	Family Homeless Prevention and Assistance Program (FHPAP)	$8,569,123	$50,122		$50,122	$8,619,245
26	Housing Opportunities for Persons with AIDS (HOPWA)	$147,579	$418		$418	$147,997
	Rental Portfolio Management	**$3,600,000**	**$0**	**$0**	**$0**	**$3,600,000**
27	Asset Management	$1,600,000				$1,600,000
28	Asset Management - Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$2,000,000				$2,000,000
	Multiple Use Resources	**$62,574,772**	**$1,436,228**	**-$1,200,000**	**$236,228**	**$62,811,000**
29	Economic Development and Housing/ Challenge (EDHC)	$57,895,356	$1,277,152		$1,277,152	$59,172,508
29a	Request for Proposals (RFP) - Single and Multifamily	$18,021,457	$1,379,501		$1,379,501	$19,400,958
29b	Housing Infrastructure Bonds (HIB)	$35,873,899	-$102,349		-$102,349	$35,771,550
29c	Bridge to Success	$2,000,000				$2,000,000
29d	Community-Owned Mobile Home Parks	$2,000,000				$2,000,000
30	Technical Assistance and Operating Support	$2,679,416	$159,076		$159,076	$2,838,492
31	Organizational Loans	$0				$0
32	Strategic Priority Contingency Fund	$2,000,000		-$1,200,000	-$1,200,000	$800,000
	Other	**$3,658,949**	**$589,440**	**$0**	**$589,440**	**$4,248,389**
33	HOME Administrative Funds*	N/A				N/A
34	Housing Infrastructure Bond Issuance Costs	$700,000				$700,000
35	Manufactured Home Relocation Trust Fund	$1,196,244	$400		$400	$1,196,644
36	Flood Disaster	$0	$390,104		$390,104	$390,104
37	Disaster Relief Contingency Fund	$1,762,705	$198,936		$198,936	$1,961,641
	Total	**$953,593,118**	**$3,331,787**	**$170,000,000**	**$173,331,787**	**$1,126,924,905**