Minnesota Housing Finance Agency

# MEETINGS SCHEDULED FOR SEPTEMER

## Location:

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

## THURSDAY, SEPTEMBER 22, 2016

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

**NOTE:** The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, September 22, 2016.

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

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

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*Equal Opportunity Housing and Equal Opportunity Employment*

**AGENDA**

**Minnesota Housing Board Meeting**

Thursday, September 22, 2016

**1:00 p.m.**

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of August 25, 2016
5. **Reports**
   **A. Chair**
   **B. Commissioner**
   **C. Program and Policy Committee Meeting of September 9, 2016**
6. **Consent Agenda**
   A. Housing Trust Fund Rental Assistance Program; Re-entry Initiative
7. **Action Items**
   A. Selections, Homeownership Education, Counseling and Training Fund
   B. Commitment, Low and Moderate Income Rental (LMIR) Program
      - Grand Terrace Apartments, Worthington, D7719
   C. Concept Approval, Habitat Impact Fund investment
   D. Concept Approval, Naturally Occurring Affordable Housing Fund (NOAH)
   E. Approval, 2017 Affordable Housing Plan
8. **Discussion Items**
   A. 2016 Cost Containment Report
   B. Agency Cultural Competency Committee
9. **Informational Items**
   A. Post-Sale Report, State Appropriation Bonds (Housing Infrastructure) 2016 Series ABC
   B. Quarterly Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)
10. **Other Business**
    None.
11. **Adjournment**

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MINUTES

**MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING**
**Thursday, August 25, 2016**
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
Chair John 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:** John DeCramer, Joe Johnson, Craig Klausing, Stephanie Klinzing, Rebecca Otto, and Terri Thao.
**Minnesota Housing staff present:** Laura Bolstad, Dan Boomhower, Wes Butler, Kevin Carpenter, Erin Coons, Jessica Deegan, Rachel Franco, Margaret Kaplan, Kasey Kier, Debbi Larson, Diana Lund, Paul Marzynski, Eric Mattson, Tom O'Hern, Ashley Oliver, John Patterson, Tony Peleska, Devon Pohlman, Irene Ruiz-Briseno, Megan Ryan, David Schluchter, Kayla Schuchman, Terry Schwartz, Lori Speckmeier, Barb Sporlein, Kim Stuart, Susan Thompson, Will Thompson, Mary Tingerthal, Karin Todd, Katie Topinka, Elaine Vollbrecht, Carrie Weisman.
**Others present:** Corey Topp, Diana Chance, RSM US; Cory Hoeppner, RBC Capital Markets; Chip Halbach, Minnesota Housing Partnership; Chris Flannery, Piper Jaffray.
3. **Agenda Review**
Chair DeCramer announced there were no changes to the agenda.
4. **Approval of the Minutes.**
**A. Regular Meeting of July 28, 2016**
Stephanie Klinzing moved approval of the minutes as written. Joe Johnson seconded the motion. Motion carries 6-0.
5. **Reports**
**A. Chair**
There was no report from the Chair.
**B. Commissioner**
Commissioner Tingerthal announced that the Higher Ground project would near completion around the time of the November meeting and the Board will have the opportunity to tour the project prior to that meeting.

Commissioner Tingerthal reminded the board there would be a program and policy committee meeting by phone on September 8 or September 9 to review public comments on the draft Affordable Housing Plan. Commissioner Tingerthal state the meeting would be confirmed on September 6.

Commissioner Tingerthal provided the following updates:
- There will not be a special session this year, so there would be no additional bonding this year. She added that additional housing infrastructure bonds would be available from turn-backs, but no new resources would be available.
- Staff continues to have discussion on tax exempt bonding, for which resources are scarce. Recommendations to the board around the awarding of 4% tax credits will be brought to the board at a future date.
- Concept approval of an investment opportunity with the Greater Minnesota Housing Fund will be presented to the Board at its September meeting. The board will receive an update

on the Habitat for Humanity investment fund as well, the concept for which was approved in May, at that time as well.

- Numerous grand openings and groundbreakings have been taking place, with events in Perham, Grand Rapids, Saint Paul and Minneapolis recently.
- Recruitment for the open board position continues.

**C. Finance and Audit Committee Meeting of August 25, 2016.**

Chair DeCramer stated the committee had met to receive the results of the Agency audit, the results of which will be available on the Agency's website. **MOTION:** Joe Johnson moved to accept the audit report. Terri Thao seconded the motion. Motion carries 6-0. Chair DeCramer announced the Committee had also approved interfund transfers and reviewed a report regarding administrative reimbursements. **MOTION:** Stephanie Klinzing moved to accept the report and ratify the actions of the committee. Auditor Otto seconded the motion. Motion carries 6-0.

**6. Consent Agenda**

**A. Modification, Publicly Owned Housing (POHP) Program - Grandview Apartments, Morris, D7810**

**B. Selection and Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Grant Renewal - Minnesota AIDS Project, D3621**

**MOTION:** Stephanie Klinzing moved approval of the consent agenda and the adoption of Resolutions No. MHFA 16-033 and 16-034. Joe Johnson seconded the motion. Motion carries 6-0.

**7. Action Items**

**A. Affordable Housing Plan Amendment, Home Mortgage Programs**

Laura Bolstad presented this request to request an$80 million increase to the home mortgage programs. Ms. Bolstad stated that it is not anticipated that loan production will reach the record high of the previous year, but it is expected to exceed the currently budgeted amount. Ms. Bolstad stated the additional funds would come from bonding or secondary market sales, based on the Agency's best execution strategy. Ms. Bolstad stated the increase would support homebuyer opportunities throughout the state and stated the board had approved changes in June to allow additional funding limits to improve the reach of the program. Ms. Bolstad stated the home mortgage program generates revenues that support the Agency's mission-rich programs. **MOTION:** Joe Johnson moved approval of this request. Auditor Otto seconded the motion. Motion carries 6-0.

**B. Selection and Commitment, HOME Investment Partnerships (HOME) and Preservation Affordable Housing Investment Fund (PARIF) Programs - Riverview Apartments and Hilltop Villas, Sebeka, D7858**

Karin Todd presented this request to approve funding for Riverview Apartments and Hilltop Villas. Ms. Todd stated both properties were originally financed by USDA Rural Development and have a total of 32 units, 24 of which currently have rental assistance. Units will be affordable at 60% of area median income, with a portion of units affordable at 50% of area median income. The scope of work includes interior upgrades, replacement of mechanicals and replacement of roofs and windows. The anticipated cost of the rehabilitation is below the predictive model. **MOTION:** Auditor Otto moved approval of the funding recommendations and adoption of Resolution No. MHFA 16-035. Stephanie Klinzing seconded the motion. Motion carries 6-0.

**C. Selection and Commitment, HOME Investment Partnerships (HOME) and Preservation Affordable Housing Investment Fund (PARIF) Programs - Jordan Towers II Apartments, Red Wing , D1194**

Paul Marzynski requested approval of funding for this senior project in Red Wing that was built in 1979. The property has an excellent operating and occupancy history and is owned and operated by the Red Wing HRA. The property does have critical physical needs, including failing windows and bringing the fire system up to code. The property also has a commercial kitchen and dining room that provides free meals to low income seniors and serves as a community gathering space. Mr.

Marzynski stated the first mortgage on the property has significant debt service, but will result in increased cash flow at the time the mortgage matures in January, 2022. The Agency's PARIF loan will be structured as interest-only until the maturation of the first mortgage, and fully amortized following that date. Auditor Otto requested that the amount of the PARIF loan referenced in the resolution be corrected so both references have the same figure. Commissioner Tingerthal requested a correction to the total development cost figure. In response to a question from Chair DeCramer, Mr. Marzynski confirmed that this financing activity would extend the affordability period for the development by 20 years. **MOTION:** Stephanie Klinzing moved approval of this request and the adoption of Resolution No. MHFA 16-036. Craig Klausing seconded the motion. Motion carries 6-0.

**D. Commitment, Low and Moderate Income Rental (LMIR) Program - 1st Avenue Flats, Rochester, D7872**

Susan Thompson requested approval of financing for this project, stating the project has been selected as part of the 2015 Consolidated Request for Proposals. In the time since selection, the LMIR loan has been restructured and the loan amount has changed. Ms. Thompson stated both the LMIR and the Challenge loans would be provided as end-loans. Ms. Thompson stated the project will provide 68-units of workforce family housing close to the Mayo Clinic and rents will be affordable to 60% of area median income and some units will have rents limited to fair market rent. Chair DeCramer requested clarification regarding the absence of the HUD insurance. Ms. Thompson responded that, due to HUD's concern with noise due to its location, they were not willing to provide the insurance. The Agency has experience with typically sited properties and is comfortable without moving forward without the HUD risk share. Mr. Johnson inquired how far the building is from the trains, and Ms. Thompson responded that there are two very slow trains passing twice daily. An Agency architect has been on site while trains passed and did not feel the trains created a noise issue and staff also spoke with management at a similarly sited building. Ms. Thompson added that the Agency did require a higher than normal fence as a precautionary measure. Auditor Otto inquired about potential health impacts due to noise and Ms. Thompson responded that the construction materials provide adequate interior sound insulation. Commissioner Tingerthal added that the Agency had a similar situation with HUD in the past few years and it was a difficult situation to navigate. **MOTION:** Joe Johnson moved approval of this request and the adoption of Resolution No. MHFA 16-037. Terri Thao seconded the motion. Motion carries 6-0.

**8. Discussion Items**

**A. Draft 2017 Affordable Housing Plan**

Mr. John Patterson provided the board with an overview of the development process for the Affordable Plan, which began in April, 2016. Mr. Patterson stated the draft plan was released in August for public review and comments, and the Agency hosted a very well attended webinar earlier that day in the day. Comments received would be presented at committee meeting on September 8 or September 9 and the board will be asked to approve the final Affordable Housing Plan at its September regular meeting. Mr. Patterson reviewed a PowerPoint presentation with the board.

Mr. Patterson stated the AHP focuses on core work and key policies and has a theme of "housing as the foundation for success." Mr. Patterson stated the AHP has five main themes: leveraging strong financial management, developing effective partnerships, being flexible and responsive, providing equitable access, and being innovative and creative. Mr. Patterson provided examples for each of these themes. Mr. Patterson then reviewed program funding levels and changes with the board. Mr. Patterson confirmed for Auditor Otto that the strategic priorities of the Agency had not changed and had been in place since 2015. Terri Thao inquired stated she appreciated that the Agency is being explicit about addressing disparities within communities of color. Ms. Thao suggested the term of "naturally occurring affordable housing" could be replaced with another term; the phrasing can be troubling. Auditor Otto inquired about the language pertaining to hiring goals and Mr. Patterson responded the 2018 QAP allows preference points for minority and woman owned businesses and there may in the future be more specific goals in the future in that area. Commissioner Tingerthal added that across the state there are many different local priorities for minority contracting and we did not want to add another layer to those priorities and requirements. The Agency felt it should take the additional time to look at where we are funding projects where there are already standards in place, but felt it was not feasible for the current RFP. Jessica Deegan added that staff are working on establishing broader efforts regarding contracting in our RFP, and basing it on Federal Regulations. These efforts will include good faith marketing efforts, but will not have numerical goals. Staff will bring this information on outreach and contracting guidelines to the board at a future meeting.

Mr. Joe Johnson inquired if the QAP application was being redesigned for ease of completion or for ease of obtaining credits. Diana Lund replied that the Agency is working to improve the usability of that application, including providing better descriptions and instructions. Commissioner Tingerthal stated the application is in effect a large spreadsheet that develops the pro forma for the development. Commissioner Tingerthal stated that the application was released much sooner this year and developers were very appreciative of having it sooner, adding that developers often have more than one potential project and having that spreadsheet earlier made it easier for them to determine what projects may fare best in the competition. Discussion item. No action needed.

**B. Draft 2017-2021 Consolidated Plan**

Jessica Deegan provided a short summary of the state's draft consolidated plan and action plan. Ms. Deegan also invited the board to provide feedback during the public comment period. Ms. Deegan stated the plan covers HOME, the National Housing Trust Fund, and HOPWA is required by HUD. The plans are developed in partnership with HOME and DEED, who also deploy federal funds. Ms. Deegan stated the plan was created with the assistance of a consultant and was the result of significant public outreach. The plan includes information about the demographics in Minnesota and the state's plan for deploying the funds, as well as desired outcomes. Ms. Deegan described the funding levels for each program and the number of households expected to be served with those funds.

Ms. Deegan shared the results of survey and public input, stating new construction rental housing is needed, especially with a focus on the most vulnerable and lowest income. Other areas of concern were low vacancy rates and an increase in rental demand. Rehabilitation needs were ranked moderately. The biggest barriers to affordable housing were seen as NIMBYism, the rising costs for developers, regulatory fees, and increase in cost burden. Ms. Deegan invited the board to participate in the September 1 public hearing.

Terri Thao inquired who typically attends the hearing and Ms. Deegan responded that it is mostly advocates. Ms. Deegan added that that community outreach is being worked to ensure more feedback can be received from the residents of this type of housing.

Auditor Otto pointed out some formatting issues in the version of the report the board received. Auditor Otto also requested clarification regarding the use of the word of "entitlements." Ms. Deegan responded that should have read "entitlement districts." Ms. Deegan also pointed out a discrepancy in the report for the amount of HOME funds; in the Consolidated Plan, HOME is listed as \$5.9 million (the allocation amount); while \$10.9 million is listed in the AHP (includes allocation and program income).

Ms. Klinzing inquired about HUD's review process. Ms. Deegan responded that HUD completes a regulatory review and it can be an iterative process. Ms. Klinzing inquired about how review of public comments and how that commentary is addressed by the Agency is handled and Ms. Deegan responded that she is not aware of HUD coming back as a result of failure to change the plan as a result of public comment. Discussion item. No action needed.

**C. Report on Manufactured Housing**

Margaret Kaplan, Community Development Director, presented this information, stating that manufactured housing is an important source of unsubsidized homeownership, where the housing units are owned by individuals, but the land on which the housing sits is rented. Ms. Kaplan stated that units are difficult and expensive to move and that park closures are being driven by the economic recovery; the land is prime space that is highly desired by developers. Ms. Kaplan stated many parks were developed by families in the early 1960's and 1970's and investments in infrastructure were not often made. The infrastructure needs are present and expensive and land costs are increasing. Ms. Kaplan stated the Manufactured Housing Relocation Trust Fund was established to mitigate the financial hardships of park closures. Reimbursements from the fund are capped by statute in order to keep the fund sustainable. Reimbursements are based on the value of the home, but the fund does not make up for the loss of affordability. It can be challenging to find comparable housing. Ms. Kaplan stated the Agency is meeting with partner organizations to investigate investment opportunities, models of community preservation, and partnerships. The Agency continues to have a partnership with ROC USA, which advances a resident-owned community ownership model for parks. Ms. Kaplan added that there are resources available from the Agency to assist very low income homeowners with repairs to manufactured housing through the Rehab Loan program and the Impact Fund.

Stephanie Klinzing inquired if there were statistics available regarding the costs of living in a manufactured home community. Ms. Kaplan stated that the rents can vary quite drastically, as little as $200 to as much as $600 per month for lot rent. Ms. Klinzing added that manufactured housing is a controversial issue, with some people feeling this is not a viable form of housing, especially for families, and questioned how this type of housing is perceived in Minnesota. Ms. Kaplan responded that there are not specific statistics available, but acknowledged that the quality of life for families that is very dependent upon the community, a provided as an example of Landfall, MN, which is consistently rated as a great place to raise a family, despite being a very low income community. Ms. Kaplan added that pre-conceived notions about manufactured housing and the people who live there tends to break down as people know more about them. Ms. Kaplan added that pre-conceived notions should not prevent the Agency from serving the low-income households that choose to live there. Ms. Klinzing stated she felt that we've come a long way in how we think about manufactured housing, but we need to acknowledge that a few thousand dollars to mitigate the loss of one's home is really minimum and this situation will not improve until there is some agreement within the state that this is a housing resource that is necessary and we should go the extra measure to ensure this type of housing is accessible and affordable to low-income households. Ms. Klinzing stated there needs to conversations about the role manufactured housing does and can play in affordable housing. Ms. Kaplan added that people are paying attention and tenant organization is increasing, and this activity can help move that discussion forward and organizations like the Family Housing, Met Council, McKnight Foundation, and others are participating in those discussions. Discussion item. No action needed.

**9. Informational Items**

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

Informational item. No action needed.

**B. 2016 Affordable Housing Plan and 2016-19 Strategic Plan: Third Quarter Progress Report**

Informational item. No action needed.

**C. Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2016**

Informational item. No action needed.

**D. Post-Sale Report, Homeownership Finance Bonds, 2016 Series C and D**

Commissioner Tingerthal referred the board to this report on the bond sale, stating it had done well in the market. Commissioner Tingerthal stated the sale required that internal and external finance team members worked very closely on this sale and stated that team is aware of the scarcity of volume cap. Informational item. No action needed.

**10. Other Business**

None.

**11. Adjournment.**

The meeting was adjourned at 2:18 p.m.

**Board Agenda Item: 6.A**
**Date: 9/22/2016**

**Item:** Housing Trust Fund Rental Assistance Program; Re-entry Initiative

**Staff Contacts:**
Carrie Marsh, 651.215.6236, carrie.marsh@state.mn.us
Elaine Vollbrecht, 651.296.9953, elaine.vollbrecht@state.mn.us

**Request Type:**

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Staff requests the adoption of the attached Resolution authorizing $80,000 in Housing Trust Fund (HTF) funding to be administered through the HTF Rental Assistance program. This action will create one new grant to an existing rental assistance administrator, providing up to 24 months of funding from October 1, 2016 through September 30, 2018. Funding is for temporary rental assistance for persons exiting a Minnesota correctional facility.

**Fiscal Impact:**
The requested HTF funds are state appropriations designated for this initiative, and therefore do not adversely impact the Agency's financial position. These funds were returned by another administrator who did not wish to extend the term of their grant beyond June 30, 2016.

**Meeting Agency Priorities:**
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachments:**
- Background
- Resolution

**Background**

Funds available under the HTF Rental Assistance program provide temporary rental subsidy payments and, in some instances, security deposits and other eligible housing related expenses for persons living in eligible units typically rented in the open market from private landlords.

The governor recommended funding for rental assistance for ex-offenders, which was approved by the Minnesota Legislature during the 2013 session for the 2014-2015 biennium. $1 million was appropriated to the Agency, of which $500,000 was designated to a specific organization that serves ex-offenders primarily in Minneapolis. The remaining $500,000 was awarded to five administrators in January 2014. The goals of the Re-entry Initiative are to help individuals secure stable housing and to reduce recidivism.

The Department of Corrections (DOC) and Minnesota Housing have collaborated on the initiative, working together to establish program policies and to assist with the referral process. Eligibility for the program is limited to adults exiting a Minnesota correctional facility who are on Intensive Supervised Release or Supervised Release and who are homeless or at risk of homelessness upon release.

In May 2016, Dakota County approached DOC and Minnesota Housing to share its efforts in addressing issues of homelessness and providing housing opportunities for individuals with criminal histories or on correctional supervision. Dakota County has a Re-entry Assistance Program (RAP), which provides a team-based approach that specifically assists individuals exiting jail and prison with housing search, benefits assistance, employment, and mental/chemical health services. A foundation grant previously provided rental assistance in Dakota County and has been expended.

The Dakota County partnership applied in Minnesota Housing's original RFP in 2013, but it ranked just below the funding cutoff due to its lack of experience at that time. Since then, the partnership has dedicated resources to housing and re-entry, including its RAP program described above. They have submitted a revised application, which demonstrates evidence of ability to meet the funding priorities:

1. Experience promoting housing stability for high risk individuals
2. A commitment to collaborate with corrections staff and other organizations in developing a program, particularly with respect to referrals, services and data collection for purposes of evaluation
3. The ability to identify a need for housing assistance for the population served

At the end of June 2016, approximately $80,000 of HTF Re-entry Initiative funds was returned by one of the administrators who did not wish to extend their grant term due to excessive in-kind service expenditures in the program. The other four administrators extended their grant terms until June 30, 2017. Staff plans to prepare a report summarizing the results of the HTF Re-entry Initiative by January 2017.

**Program Funding Recommendations**

Staff recommends funding this proposal with the $80,000 available. The funds will be administered under the HTF program and will provide rent subsidies for up to 24 months, as well as security deposits and other housing and administrative related expenses. The administrator is expected to assist the households in transitioning to other appropriate housing prior to the end of the grant term.

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

**RESOLUTION NO. MHFA 16-**

**RESOLUTION APPROVING SELECTION/COMMITMENT TO FUND HOUSING TRUST FUND (HTF) RENTAL ASSISTANCE GRANT**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide rental assistance for ex-offenders.

WHEREAS, the Agency staff has reviewed the application and determined that it is in compliance under the Agency's rules, regulations and policies; that such grant is not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the application 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 a grant agreement using state and Agency resources as set forth, subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

1. The Agency staff shall review and approve the following grantee the total recommended amount for two years;

| Grantee | D Number | Award |
|---|---|---|
| Dakota County CDA | D3739 | $ 80,000 |

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

Adopted this 22nd day of September, 2016.

________________________________________

CHAIRMAN

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Minnesota Housing Finance Agency

**Board Agenda Item:** 7.A
**Date: 9/22/2016**

**Item:** Selections, Homeownership Education, Counseling and Training Fund

**Staff Contact(s):**
Ruth DuBose, 651.297.3128, ruth.dubose@state.mn.us
Tal Anderson, 651.296.2198, tal.anderson@state.mn.us

**Request Type:**

| | |
|---|---|
| ☒ Approval | ☐ No Action Needed |
| ☒ Motion | ☐ Discussion |
| ☐ Resolution | ☐ Information |

**Summary of 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 requests approval of the funding recommendations for participants in the HECAT program.

**Fiscal Impact:**
HECAT funding recommendations are supported by the Affordable Housing Plan (AHP) budget, state appropriations and committed co-funder leverage. The program does not generate income to the Agency but supports our strategic priority of reducing Minnesota's racial and ethnicity homeownership disparity and is consistent with the AHP.

**Meeting Agency Priorities:**
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota’s Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota’s Racial and Ethnicity Homeownership Disparity

**Attachment(s):**
- Background and Discussion
- 2016-2017 HECAT Proposals Recommended for Approval

**BACKGROUND**

Minnesota Housing and its funding partners (Minnesota Home Ownership Center, the Greater Minnesota Housing Fund, and the Family Housing Fund) accepted proposals under the HECAT program on June 16, 2016.

The HECAT application and selection process supports organizations wishing to expand existing activities, services and partnerships, while recognizing the importance of supporting established organizations providing continuity of service.

The funding process supports efforts toward establishing and coordinating a statewide partnership delivery model for the continuum of services needed to promote successful and sustainable homeownership and awards organizations that demonstrate strong experience, leveraging ability and targeting efforts in accordance with the Agency's program outreach goals and strategic direction.

**Proposal Review and Selection Process:**

HECAT proposals submitted to Minnesota Housing must address a number of criteria as established by the Minnesota statute governing the program. Specifically, proposals are reviewed and recommended pursuant to the following criteria:

- The extent to which there is an equitable geographic distribution of funds among program applicants.
- The prior experience of the applicant in administering and delivering specified comprehensive homebuyer training services.
- The reasonableness of the applicant's budget, including the applicant's ability to leverage other resources with program funds.
- The extent to which program services are targeted to low-income and/or households of color or Hispanic ethnicity.
- The credentials and/or certifications demonstrated by the applicant pertaining to the specific service(s) the applicant proposes to provide.

All proposals are initially reviewed and evaluated by both Minnesota Housing and Minnesota Home Ownership Center staff. Proposals are presented to a selection committee, which score proposals pursuant to the criteria summarized above. The selection committee was comprised of staff from Minnesota Housing, the Minnesota Home Ownership Center, the Greater Minnesota Housing Fund, and the Family Housing Fund.

In an effort to assure equitable funding allocations, a tiered outputs-based performance model is used which reviews applicant past performance in relation to the number of households served by HECAT providers. The tiered funding model allows for some flexibility in the recommended funding award levels within specified ranges, based on performance within the range and overall strength of a specific organization's proposal.

**DISCUSSION**

**Recommended Selections:**

The total amount of funding available for the 2016-2017 HECAT year is near $1.6 million with contributions of $942,000 from Minnesota Housing and $650,000 from the Minnesota Home Ownership Center, the Greater Minnesota Housing Fund and the Family Housing Fund. Forty proposals were received this funding round requesting a maximum amount of just under $2.1 million.

Over 66 percent of the funds are allocated for homebuyer counseling and homebuyer education and 27 percent for foreclosure counseling. Six percent of the funds are allocated for home equity conversion mortgage counseling.

In addition to HECAT, Minnesota Housing also funds foreclosure prevention counseling with federal funds from the National Foreclosure Mitigation and Counseling (NFMC) program. The additional NFMC funds ensure that foreclosure prevention counseling organizations have capacity to meet consumer demand for this counseling service. Funding through NFMC Round Ten was awarded in May 2016 for $675,894 and will run through June 30, 2017.

Final funding awards will be presented to awardees once the HECAT funding partners have obtained Board approvals this month. Awards are subject to grantee agreement to meet performance and service area expectations as outlined in individual funding contracts.

**2016 Outcomes and Selection Trends:**
Two organizations were added this year including Lakes and Prairies Community Action and Strickland Associates.

The proposals selected for funding this round provide a full spectrum of comprehensive homebuyer training program services. Selected activities include: 1) foreclosure prevention counseling;
2) in-person homebuyer education workshops in several languages; 3) individualized homebuyer counseling; and 4) home equity conversion counseling.

*Foreclosure Prevention:* The number of foreclosures affecting many areas of the state continues to heighten the awareness of foreclosure prevention counseling supported under HECAT. In 2015, HECAT grantees served a total of 2,048 households with 55 percent of those households in the Twin Cities Metro area and 45 percent of those households in Greater Minnesota. Sixty-seven percent of those households avoided foreclosure.

While foreclosure most dramatically affects the borrower losing a home, neighborhoods impacted by concentrations of foreclosures are vulnerable to its social and economic costs, including increases in boarded, vacant houses and declining home prices. In light of this trend, 18 providers are being recommended for $435,000 in HECAT funds to provide foreclosure counseling services.

*Pre-purchase Education and Counseling:* One of the best ways to prevent foreclosure is to assure that potential homebuyers have access to information to enable success in the first place. Minnesota is recognized as having the best infrastructure for homebuyer education and counseling in the country. In 2015, a total of 9,960 households received homebuyer education and counseling services with 67 percent of those households in the Twin Cities Metro and 33 percent of those households in Greater Minnesota. Of the 9,960 that received services, 4,325 received classroom education, 3,697 completed the online version of homebuyer education (Framework), and the remaining 1,938 received homebuyer counseling. While the number is likely much higher, it’s known that 38 percent of those households purchased a home with an average interest rate of four percent. The selection committee is committed to sustaining this infrastructure, and recommends funding 35 organizations with $1,057,000 in HECAT funding.

*Home Equity Conversion Counseling (HECM):* Home equity conversion loan options continue to grow slowly in acceptance. In 2015, 719 households received this service statewide. These loan programs, which require borrower counseling, are supported by three counseling organizations which HECAT recommends funding in the amount of $100,000.

*Households of Color and/or Hispanic Ethnicity*: Although all organizations recommended for funding serve a broad range of households, the funding recommendation includes 12 organizations (including the newly added Strickland Associates) that provide services targeted to households of color and/or Hispanic ethnicity for in-person homebuyer education and counseling services. Of those that received services in 2015, 44 percent were households of color in the Twin Cities Metro and 26 percent were households of color in Greater Minnesota.

# 2016-2017 HECAT PROPOSALS RECOMMENDED FOR APPROVAL

| PROVIDER | Amount Requested | Amount Recommended | Funding Recommendation by Program: Homebuyer Education | Homebuyer Counseling | Home Equity Conversion Counseling | Foreclosure Counseling |
|---|---|---|---|---|---|---|
| 1st Home Network | $ 20,000 | $ 20,000 | $ 10,000 | $ 10,000 | | |
| African Development Center | $ 125,000 | $ 62,500 | $ 35,000 | $ 27,500 | | |
| African Economic Development Solutions | $ 60,000 | $ 16,000 | $ 11,000 | $ 5,000 | | |
| African Families Development Network | $ 70,000 | $ 27,000 | $ 18,000 | $ 9,000 | | |
| Anoka County Community Action Program, Inc. | $ 50,000 | $ 45,000 | $ 13,000 | $ 12,000 | | $ 20,000 |
| Arrowhead Economic Opportunity Agency | $ 108,551 | $ 55,000 | $ 18,000 | $ 22,500 | | $ 14,500 |
| Bi-County Community Action Programs, Inc. | $ 24,042 | $ 9,500 | | | | $ 9,500 |
| Bii Gii  Winn CDLF | $ 15,000 | $ 12,500 | $ 7,500 | $ 5,000 | | |
| Carver County Community Development Agency | $ 28,000 | $ 22,500 | $ 7,000 | $ 6,500 | | $ 9,000 |
| Central Minnesota Housing Partnership | $ 25,000 | $ 25,000 | $ 20,000 | $ 5,000 | | |
| Communidades Latinas Unidas en Servivio (CLUES) | $ 47,000 | $ 31,500 | $ 13,500 | $ 13,000 | | $ 5,000 |
| Community Action Duluth | $ 40,000 | $ 29,500 | $ 16,500 | $ 13,000 | | |
| Community Action Partnership for Suburban Hennepin | $ 75,000 | $ 75,000 | $ 20,000 | $ 25,000 | $ 15,000 | $ 15,000 |
| Community Neighborhood Housing Services dba NeighborWorks Home Partners | $ 95,000 | $ 86,500 | $ 40,000 | $ 35,000 | | $ 11,500 |
| Dakota County Community Development Agency | $ 65,000 | $ 60,000 | $ 30,000 | $ 25,000 | | $ 5,000 |
| Headwaters Regional Development Commission | $ 25,000 | $ 24,000 | $ 11,000 | $ 13,000 | | |
| Hmong American Partnership | $ 50,000 | $ 27,000 | $ 20,500 | $ 6,500 | | |
| Housing and Redevelopment Authority - City of St Paul | $ 30,000 | $ 25,000 | | | | $ 25,000 |
| KOOTASCA Community Action, Inc. | $ 28,000 | $ 28,000 | $ 7,000 | $ 21,000 | | |
| Lakes and Prairies Community Action* | $ 52,844 | $ 23,500 | $ 23,500 | | | |
| Lao Assistance Center | $ 22,000 | $ 21,000 | $ 11,000 | $ 10,000 | | |
| Lutheran Social Service of Minnesota | $ 275,000 | $ 240,000 | | | $ 45,000 | $ 195,000 |
| Mankato Economic Development Authority | $ 14,112 | $ 9,000 | $ 9,000 | | | |
| Model Cities Community Development Corporation | $ 23,082 | $ 23,500 | $ 12,500 | $ 11,000 | | |
| Neighborhood Development Alliance | $ 80,000 | $ 75,000 | $ 16,000 | $ 50,000 | | $ 9,000 |
| Northwest Community Action, Inc. | $ 10,000 | $ 7,500 | $ 7,500 | | | |
| One Roof Community Housing | $ 60,000 | $ 60,000 | $ 30,000 | $ 30,000 | | |
| PRG, Inc. | $ 98,000 | $ 98,000 | $ 46,000 | $ 40,000 | | $ 12,000 |
| Reverse Mortgage Counselors, Incorporated | $ 40,000 | $ 40,000 | | | $ 40,000 | |
| Rochester/Olmsted Community Housing Partnership | $ 40,000 | $ 40,000 | $ 18,000 | $ 11,000 | | $ 11,000 |
| Scott County Community Development Agency | $ 38,000 | $ 37,500 | $ 9,000 | $ 8,000 | | $ 20,500 |

## 2016-2017 HECAT PROPOSALS RECOMMENDED FOR APPROVAL (continued)

| PROVIDER | Amount Requested | Amount Recommended | Funding Recommendation by Program: Homebuyer Education | Homebuyer Counseling | Home Equity Conversion Counseling | Foreclosure Counseling |
|---|---|---|---|---|---|---|
| Southwest Minnesota Housing Partnership | $ 30,000 | $ 23,000 | $ 11,000 | $ 12,000 | | |
| Strickland Associates* | $ 14,000 | $ 14,000 | $ 14,000 | | | |
| Three Rivers Community Action Inc. | $ 50,000 | $ 38,500 | $ 17,500 | $ 21,000 | | |
| Twin Cities Habitat for Humanity | $ 34,500 | $ 22,500 | | | | $ 22,500 |
| Umoja Community Development Corporation | $ 51,500 | $ 18,000 | $ 18,000 | | | |
| Washington County HRA | $ 56,000 | $ 50,500 | $ 14,000 | $ 13,000 | | $ 23,500 |
| West Central MN Communities Action, Inc. | $ 41,500 | $ 26,500 | $ 5,500 | $ 10,000 | | $ 11,000 |
| White Earth Investment Initiative | $ 18,000 | $ 18,000 | $ 9,000 | $ 9,000 | | |
| Wright County Community Action, Inc. | $ 48,567 | $ 24,500 | $ 8,500 | | | $ 16,000 |
| **TOTALS:** | **$ 2,077,698** | **$ 1,592,000** | **$ 578,000** | **$ 479,000** | **$ 100,000** | **$ 435,000** |

*New Applicant

## 2016-2017 HECAT RECOMMENDATION BY PROGRAM

| PROGRAM | Dollar Amount | Percentage of Total Funds |
|---|---|---|
| Homebuyer Education | $ 578,000 | 36% |
| Homebuyer Counseling | $ 479,000 | 30% |
| Home Equity Conversion Counseling | $ 100,000 | 6% |
| Foreclosure Counseling | $ 435,000 | 27% |
| **TOTALS:** | **$ 1,592,000** | **100%** |

**Board Agenda Item:** 7.B
**Date: 9/22/2016**

**Item:** Commitment, Low and Moderate Income Rental (LMIR) Program
- Grand Terrace Apartments, Worthington, D7719

**Staff Contact(s):**
William Price, 651.296.9440, William.Price@state.mn.us

**Request Type:**

☒ Approval
☒ Motion
☒ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

**Summary of Request:**
Staff requests approval of the commitment for the Grand Terrace Apartments in Worthington. The Agency's mortgage credit committee will review the project on Tuesday, September 20. If approved by the mortgage credit committee, complete information regarding this development and financing will be provided to the board following this review.

**Fiscal Impact:**
This activity has been budged under the 2016 Affordable Housing Plan.

**Meeting Agency Priorities:**
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):** *(to be provided in advance of the meeting)*
- Background
- Development Summary
- Resolution

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**Item:** Concept Approval – Habitat for Humanity “Home Loan Impact Fund 2020”

**Staff Contact(s):**
Matt Dieveney, 651.282.2577, matthew.dieveney@state.mn.us
Tal Anderson, 651.296.2198, tal.anderson@state.mn.us

**Request Type:**

| | |
|---|---|
| ☒ Approval | ☐ No Action Needed |
| ☒ Motion | ☐ Discussion |
| ☐ Resolution | ☐ Information |

**Summary of Request:**
Agency staff seeks board approval of a program concept that will allow an investment of up to $10 million, over four years, in the Habitat for Humanity “Home Loan Impact Fund 2020” (the “Fund”). In addition, the Agency seeks Board authorization to provide a backstop guaranty which, if needed, could trigger the investment of up to another $5 million, approximately 17 years into the life of the Fund.

The Fund is sponsored by and will be managed by the Twin Cities affiliate (TCHFH) of Habitat for Humanity International. The general structure of the Fund will be quite similar to the SHOP LLC fund (also known as “Bridge to Success”), sponsored by Greater Metropolitan Housing Corporation, in which the Agency invested in 2012 and 2015. The Fund will finance single-family mortgage loans to households at 30%-80% of area median income. TCHFH is currently seeking investors for the Fund, offering several different Classes of notes for investors.

**Fiscal Impact:**
Since 2005, the Agency’s Affordable Housing Plan has allocated $2 million of annual funding to the Habitat for Humanity of Minnesota (Habitat-MN) Next 1000 Homes Fund. This funding has taken the form of a $1 million loan at 5% from Pool-2 and a $1 million loan at 0% from Pool-3. Over the past five years, 83% of Next 1000 Homes Fund dollars have been accessed by TCHFH.

Agency staff proposes replacing this $2 million of annual lending over the next four years to Habitat-MN ($8 million total, $4 million each from Pool-2 and Pool-3) with direct investment of these funds into the TCHFH Fund. An additional $2 million would be sourced from Pool-2.

Up to $6 million would be invested in Class-D notes issued by the Fund paying 5% interest and up to $4 million would be invested in Class-E notes paying 1%. The notes pay interest on a current and on-going basis, but the principal would be outstanding for 25-34 years (with term depending on the overall performance of the underlying mortgage loans).

**Meeting Agency Priorities:**
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota’s Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness

☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Fund Structure
- Financial Risks
- Summary

Twin Cities Habitat for Humanity (TCHFH) is seeking investment in its Impact Fund 2020 loan fund (the "Fund"). This initiative seeks to pair $76 million of investments from public and private financial institutions with $14 million of TCHFH-provided, soft-second-mortgage subsidies to provide highly subsidized single-family mortgage loans to lower-income families for home purchases.

The Fund is designed to increase TCHFH's mission impact and provide it with a more sustainable operating model. Minnesota Housing has been asked to commit, for a four-year period, to invest up to a total of $10 million.

The Fund is expected to provide homeownership to 418 lower-income Metro-area families that would be unable to obtain financing through other mortgage loan channels. The Fund will target 180 families at 30-60% of Area Median Income (AMI) and 238 families at 60-80% of AMI. TCHFH expects that roughly 80% of the mortgage loans will be made to households of color or Hispanic ethnicity. These numbers would come close to doubling the number of families that TCHFH is currently able to serve on an annual basis.

Under TCHFH's existing operating model, mortgage loans are provided with interest rates of 0%. In this new Fund model, mortgage loans will carry interest rates ranging from 2%-4.5%, based on need. However, donation dollars will be combined with Fund mortgages to close the affordability gap on home purchases by providing 0% subordinate loans to homebuyers. This will maintain the affordability of borrowers' mortgage payments at ≤30% of their household income.

Habitat-MN is agreeable to this change in approach to funding Habitat for Humanity metro area homebuyers. Agency staff is working on some other modifications to the existing 21st Century Fund model to Habitat-MN to maintain service levels and enhance its effectiveness for Habitat homebuyers in Greater Minnesota.

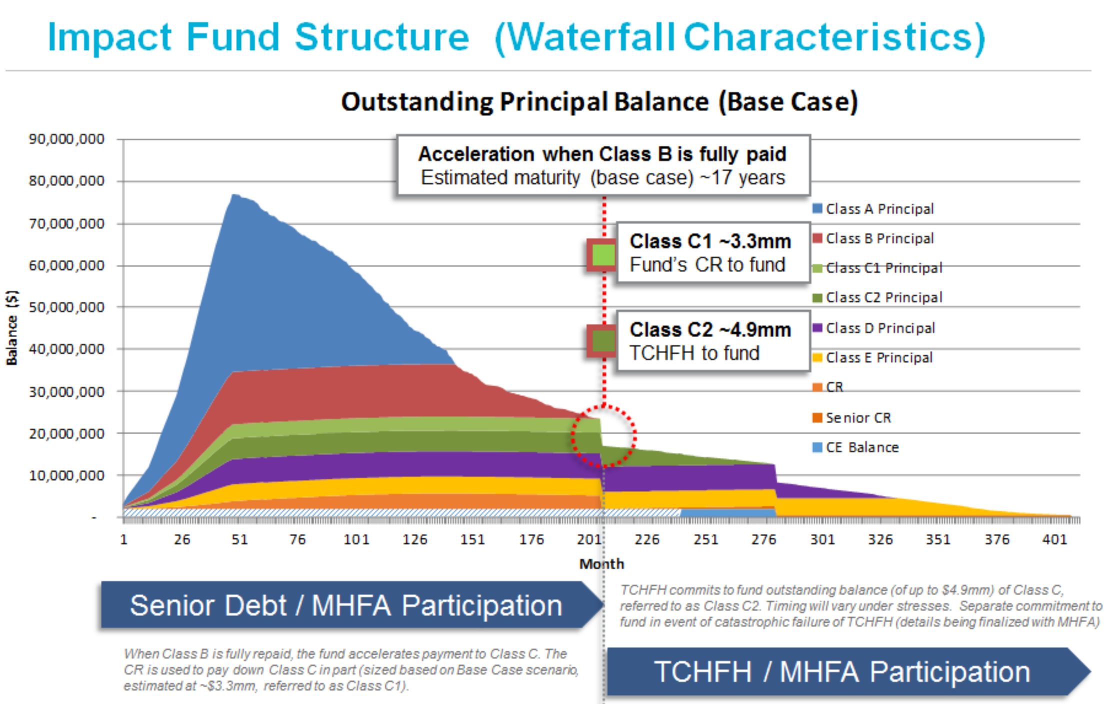
The Fund will issue notes backed by the underlying mortgage loans. Impact Fund 2020 is designed with a waterfall structure where classes of debt are paid-down in order of seniority. Debt will be issued under five classes of debt seniority: A, B, C, D, and E. Mortgage loan principal payments will first pay-off Class-A, then Class-B, then Class-C, then Class-D, and then Class-E. Interest flows to all classes on a current and on-going basis.

Over the course of four years and using 30-day rolling funding windows, as new mortgage loans are made, investors will provide funding and be issued debt securities. Capital calls will be made to investors on a proportional basis of investment commitment size relative to Fund size. The securities will be issued with face amounts that are 104% of the value of the underlying mortgage loans, with half of the 4% premium (2% or $1.5 million) being used to pay TCHFH fund management costs the other half (2% or $1.5 million) to fund a credit reserve (CR) .

The terms of the Fund do not require full commitment from investors for all classes before TCHFH can begin making capital calls. However, capital calls will be made proportionally across classes only up to the amount of new mortgage loans expected to close the following month. If, for example, TCHFH can only secure commitments from investors for 50% of the Fund's target size of $76 million, only 50% ($5 million) of the Agency's commitment amount would be called.

TCHFH has targeted banking institutions for participation in the senior Class-A, Class-B, and Class-C notes, and is looking to Minnesota Housing to commit to all of the Class-D and Class-E notes. Class-D was structured to meet the investment criteria for Minnesota Housing's Pool-2 and pays 5% interest. Class-E was designed for Pool-3 and pays 1% interest.

The mortgage loans will be originated by Sunrise Banks and serviced by AmeriNational. US Bank will provide trust and custody service. CRF USA will assist with fund administration.



<u>Fund Risk</u>

The Fund's financial performance was modeled by applying stresses to the collateral loan portfolio in a "base case" and also across multiple scenarios of increasing stress. An "adverse case" was modeled more conservatively and is considered remote, with a 19% default rate at 45.9% loss severity.

The Agency's investment in Class-D notes and Class-E notes would be in first-loss position. A base-case was modeled more conservatively than TCHFH's expectations, with a 9.6% default rate, 0% property value appreciation, and 45.9% loss severity. In this base-case, the Fund pays principal and interest as expected, with weighted average lives of 25 years and 30 years for Class-D notes and Class-E notes respectively. As loan performance is modeled under what is considered unlikely or reasonably remote scenarios, the performance of the Class E notes and then the Class-D notes begins to deteriorate with interest payment shortfalls and extended durations.

<u>Exposure to TCHFH</u>

TCHFH has offered two additional credit enhancements to protect the Agency against a reasonable risk of principal loss and interest shortfalls. A Credit Enhancement (CE) guaranty will cover $2.1 million of expected principal payment shortfalls, resulting from under-collateralization of the Fund. All $2.1 million of the CE will be used to pay-down Class-D, as soon as Class-C is paid-off.

A Senior Credit Reserve (SCR) will cover up to $1.175 million of interest payment shortfalls. The first $0.650 million will cover 100% of the first interest shortfalls. After the first $0.650 million is paid, the remaining $0.525 million of the SCR will pay 50% of additional interest shortfalls up to $1.7 million.

Due to the Class-C investor's duration constraints, TCHFH will likely be required to buy out about $4.9 million of the Class-C notes at a future date (year 17 in Base-case). To satisfy the Class-C investors' credit concerns, TCHFH is asking Minnesota Housing to provide a backstop obligation to buy a portion of Class-C notes to the extent that TCHFH is unable to perform all or part of the buyout. In terms of accounting treatment, Agency staff believes this would be described as a contingent commitment to invest up to $4.9 million.

The combined $2.1 million CE, the $1.175 million SCR, and the $4.9 million Class-C buyout backstop makes for $8.175 million of risk exposure to TCHFH, aside from risk exposure in the Fund. To help mitigate this exposure, TCHFH structured funding schedules to ensure that funds are available when funds are need.

The Agency's Senior Credit Risk Officer, Chuck Commerford, and Housing Policy Specialist, Larry Kelly, worked with TCHFH to develop financial projections through 2034, the end of Fund, in order to assess the likelihood that TCHFH will be able to perform these obligations. Assuming current operations continue over the life of the Fund, we have reasonable confidence that TCHFH will be able to perform these obligations.

This Fund presents an opportunity to earn a reasonable return on mission-rich investment. The Agency's $10 million would be leveraged six times over to bring an additional $66 million of private capital to extend homeownership to an additional 400+ lower-income families, the majority of which are anticipated to be of color or Hispanic ethnicity. While there are financial risks to the investment, the Agency feels it understands the risks and has developed reasonable protection against these risks.

As with all Agency investments, the actual decision to invest will be contingent upon the development of Fund documentation and procedures acceptable to the Agency's finance staff and legal counsel.

**Board Agenda Item:** 7.D
**Date: 9/22/2016**

**Item:** Concept Approval – Greater Minnesota Housing Fund “NOAH Impact Fund”

**Staff Contact(s):**
Matt Dieveney, 651.282.2577, matthew.dieveney@state.mn.us
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

**Request Type:**

| | |
|---|---|
| ☒ Approval | ☐ No Action Needed |
| ☒ Motion | ☐ Discussion |
| ☐ Resolution | ☐ Information |

**Summary of Request:**
Agency staff seeks board approval of a program concept that will allow an investment of up to $10 million, over three years, into Greater Minnesota Housing Fund’s (GMHF) “NOAH Impact Fund” (the “Fund”). The Fund will invest in the purchase of naturally occurring affordable housing (NOAH) multi-family properties, in order to preserve housing affordable to low-income tenants.

**Fiscal Impact:**
The Agency is proposing to commit $5 million to purchase all of the Class-D notes offered and potentially up to another $5 million to purchase all or a portion of the Class-C notes offered. Both Class-C and Class-D will pay 5% interest. The Agency’s invested principal would be outstanding for 10-13 years. The Agency would source the $10 million from Pool-2. GMHF is currently seeking investors for the Fund, offering several different Classes of securities for investors.

The general structure of the Fund will be quite similar to the SHOP LLC fund (also known as “Bridge to Success”), sponsored by Greater Metropolitan Housing Corporation, in which the Agency invested in 2012 and 2015.

**Meeting Agency Priorities:**
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota’s Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota’s Racial and Ethnicity Homeownership Disparity

**Attachment(s):**
- Background
- Fund Structure
- Financial Risks
- Summary

NOAH properties are typically older apartment buildings that have become stylistically dated and lack the amenities desired by higher-income tenants, thus commanding lower rents without government subsidies. With rental vacancy rates currently at extreme lows, supply-and-demand forces are driving-up rents. Furthermore, affordable housing is disappearing as investors buy up these properties, make modest upgrades, and convert to high-rent housing.

The Fund seeks $25 million to take equity positions in 10-12 NOAH properties over a two-to-three year period. As property purchases occur, capital calls will be made to investors on a proportional basis of investment commitment size relative to Fund size.

The Fund will target NOAH properties across the seven-county metro that are at high-risk of being converted to high-cost housing. Many properties of interest will likely be in Hennepin or Ramsey County and located in both urban and suburban communities. The properties will be in close proximity to schools, public transportation, public services, and employment centers.

GMHF will work with mission-oriented owner-operator partners to identify, purchase, and manage the properties. Owner-operators will take a first-loss equity position in purchased properties. There will be alignment of both mission and financial interests of all participants in the properties.

All properties must accept Section-8 vouchers and this will be memorialized in the partnership agreements with the owner operators. Beyond compliance with Fair Housing law, the Fund will work proactively to require outreach to communities of color and renters who are least likely to apply. However, in order to attract private capital into the Fund, there will likely be fewer constraints on owner-operators and properties than if this was a program managed directly by Minnesota Housing.

The Fund will require that operating partners demonstrate marketing and outreach efforts to communities of color. Prospective operating partners have been working closely with the housing advocacy community to create a set of standards that will be required. Once in operation, operating partners will collect resident demographic data that will be monitored by the Fund.

Greater Minnesota Housing Fund (GMHF) is seeking a $5-10 million investment from Minnesota Housing into its NOAH Impact Fund (the “Fund”). Over the anticipated 10-12 year life of the Fund, Minnesota Housing would earn interest on its investments.

The Agency’s investment would leverage an additional $15-20 million of private capital in the Fund and $80-100 million of private debt capital at the property level to preserve affordability of 1,000 units of multi-family rental housing for another 15+ years.

Fund Structure

The Fund will be a special purpose subsidiary of GMHF. The purchase of a specific NOAH property will be financed with a 70-80% LTV conventional first-mortgage loan from a traditional lender, along with a 90/10-split equity position between the Fund and the operating partner. The Fund will issue securities to investors, which will be repaid from the return on the equity positions of the Fund in the individual NOAH properties. The Fund's securities will be issued in a waterfall structure, in which classes of securities are paid-down in order of seniority.

Minnesota Housing is being asked to invest $5 million into Class-D notes and possibly up to another $5 million into Class-C notes. Class-D notes will pay interest of 5.0% and Class-C notes will pay interest of 4.875-5.000%. GMHF is speaking to banks about investing in Class-A, Class-B, and possibly Class-C notes. Hennepin County will be the Class-E investor.

Purchased properties are expected to cash flow based on strong operating histories and conservative underwriting. Rent revenues from the NOAH properties' tenants will be collected by the operating partner and, after accounting for property level financing and expenses, 90% of cash flow will be paid to the Fund.

After taking out Fund management fees for GMHF, quarterly payments will be paid to the Fund's investors. In the base case for repayment, Class C, D, and E notes will be interest-only over the expected life of the Fund, with principal expected to be repaid after about eleven years, coinciding with the refinance or sale of the Fund's properties.

An additional equity investor, referred to as the "differential investor" will provide another $4.3 million of funding over the life of the Fund. These funds will be used to accelerate repayment of principal to Class-A and Class-B notes. The differential investor will receive tax benefits in the form of 99.99% of the property level tax losses and the Fund's tax losses (amortization, depreciation, debt, and other expenses) along with repayment of principal and a portion of residual cash flows at the end of the Fund.

Financial Risks

The key financial risks are associated with the financial performance of the acquired properties, which is driven by economic environment and the competency and capacity of the operating partners. GMHF has, so far, identified and received interest from 11 prospective NOAH owner-operators.

GMHF will contract the support of a third party (Cinnaire or other highly qualified group) in underwriting both the properties and the operating partners. Properties must demonstrate a history of solid financial performance and the ability to maintain a minimum debt-service coverage ratio of 1.20 or better. Cinnaire has performed this underwriting and evaluation role for GMHF over the last several years for GMHF's highly successful Minnesota Equity Fund, which syndicates federal housing tax credits.

GMHF will put $2.5 million into the fund, up front in cash and as a guaranty, as a credit enhancement for further protection. The differential investor and operating partners' equity will not be repaid until the Class A, B, C, D, and E notes are repaid in full. Along with the subordination of Class-E, this structure provides the Agency's investment in Class-D notes with considerable protection from losses. If the Agency invests in Class C notes, these would enjoy even greater protection.

GMHF and its consulting firms have run models of various scenarios to test the Fund's ability to withstand a variety of stresses and magnitude of stresses. The stresses range from short-term spikes in vacancies to the liquidation of 50% of the properties at 100% losses. In all but the most catastrophic cases, which are considered extremely remote, the Agency's investment in Class-D notes is paid as expected.

This Fund presents an opportunity to earn a reasonable return on mission-rich investment. The Agency's $10 million would be leveraged 2.5 times over to bring an additional $15 million of private capital to preserve the affordability of an anticipated 1,000 units of rental housing. While there are financial risks to the investment, the Agency feels it understands the risks and has developed reasonable protection against these risks. As with all Agency investments, the actual decision to invest will be contingent upon the development of Fund documentation and procedures acceptable to the Agency's finance staff and legal counsel.

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**Board Agenda Item:** 7.E
**Date: 9/22/2016**

**Item:** 2017 Affordable Housing Plan

**Staff Contact(s):**
John Patterson, 651.296.0763, john.patterson@state.mn.us

**Request Type:**

☒ Approval
 ☒ Motion
 ☐ Resolution

☐ No Action Needed
 ☐ Discussion
 ☐ Information

**Summary of Request:**
Staff is providing the 2017 Affordable Housing Plan (AHP) for your review and requesting your approval. We presented and discussed the draft AHP and public comments at the August 25 Board meeting and the September 9 Program Committee meeting. The attached AHP shows the changes we have made to the draft AHP that was previously presented. We have also attached a table showing the funding changes.

We are preparing a formally formatted version of the 2017 AHP, which we will distribute at the Board meeting.

**Fiscal Impact:**
The AHP includes a program budget of nearly $1.1 billion for 2017.

**Meeting Agency Priorities:**
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**
- 2017 AHP – Funding Changes
- 2017 Affordable Housing Plan

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# 2017 AHP – Funding Changes

The following table shows the funding changes we have made from the August 18, 2016 draft AHP to the current recommendations. We provided an earlier version of this table at the September 9 Program Committee meeting. The only additional changes we have made since the Program Committee meeting are shown in lines 10 and 11. With respect to our first-mortgage production for rental housing, we decreased LMIR funding by $5 million and increased expected MAP activity by an equivalent amount. This shift has no net effect on the overall program budget.

| 2017 AHP - Funding Changes from August 18, 2016 Draft to Current Recommendation | | | | |
|---|---|---|---|---|
| | | **August 18, 2016 Draft** | **Current Recommendation** | **Change** |
| | **Homebuyer Financing and Home Refinancing** | **$634,200,000** | **$634,700,000** | **$500,000** |
| 1 | Home Mortgage Loans | $600,000,000 | $600,000,000 | $0 |
| 2 | Mortgage Credit Certificates (MCC) | $5,700,000 | $5,700,000 | $0 |
| 3 | Deferred Payment Loans | $15,000,000 | $15,500,000 | $500,000 |
| 4 | Monthly Payment Loans | $11,000,000 | $11,000,000 | $0 |
| 5 | Habitat for Humanity Initiative | $2,500,000 | $2,500,000 | $0 |
| | **Homebuyer/Owner Education and Counseling** | **$2,767,000** | **$2,767,000** | **$0** |
| 6 | Homebuyer Education, Counseling & Training (HECAT) | $1,517,000 | $1,517,000 | $0 |
| 7 | Enhanced Homeownership Capacity Initiative | $1,250,000 | $1,250,000 | $0 |
| | **Home Improvement Lending** | **$22,600,000** | **$22,600,000** | **$0** |
| 8 | Home Improvement Loan Program | $14,000,000 | $14,000,000 | $0 |
| 9 | Rehabilitation Loan Program (RLP) | $8,600,000 | $8,600,000 | $0 |
| | **Rental Production- New Construction and Rehabilitation** | **$126,195,954** | **$128,107,255** | **$1,911,301** |
| 10 | First Mortgage - Low and Moderate Income Rental (LMIR) | $65,000,000 | $60,000,000 | -$5,000,000 |
| 11 | First-Mortgage - MAP Lending (Multifamily Accelerated Processing) | $15,000,000 | $20,000,000 | $5,000,000 |
| 12 | Flexible Financing for Capital Costs (FFCC) | $0 | $0 | $0 |
| 13 | Multifamily Flexible Capital Account | $4,500,000 | $4,500,000 | $0 |
| 14 | Low-Income Housing Tax Credits (LIHTC) | $9,546,045 | $9,546,045 | $0 |
| 15 | National Housing Trust Fund | $3,000,000 | $3,000,000 | $0 |
| 16 | Housing Trust Fund - Capital (Housing Infrastructure Bonds - HIB) | $4,500,000 | $3,000,000 | -$1,500,000 |
| 17 | Preservation - Affordable Rental Investment Fund (PARIF) | $11,419,070 | $13,900,580 | $2,481,510 |
| 18 | HOME | $10,904,245 | $11,518,166 | $613,921 |
| 19 | Preservation - Publicly Owned Housing Program (POHP) - GO Bonds | $1,371,988 | $1,687,858 | $315,870 |
| 20 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | $954,606 | $954,606 | $0 |

## 2017 AHP - Funding Changes from August 18, 2016 Draft to Current Recommendation

| | | August 18, 2016 Draft | Current Recommendation | Change |
|---|---|---|---|---|
| | **Rental Assistance Contract Administration** | **$187,079,695** | **$187,079,695** | **$0** |
| 21 | Section 8 - Performance Based Contract Administration | $135,000,000 | $135,000,000 | $0 |
| 22 | Section 8 - Traditional Contract Administration | $52,000,000 | $52,000,000 | $0 |
| 23 | Section 236 | $79,695 | $79,695 | $0 |
| | **Resources to Prevent and End Homelessness (Non-Capital)** | **$33,547,250** | **$33,601,039** | **$53,789** |
| 24 | Housing Trust Fund (HTF)* | $17,910,000 | $17,963,789 | $53,789 |
| 25 | Bridges | $6,339,508 | $6,339,508 | $0 |
| 26 | Section 811 Supportive Housing Program | $500,000 | $500,000 | $0 |
| 27 | Family Homeless Prevention and Assistance Program (FHPAP) | $8,644,000 | $8,644,000 | $0 |
| 28 | Housing Opportunities for Persons with AIDS (HOPWA) | $153,742 | $153,742 | $0 |
| | **Rental Portfolio Management** | **$2,000,000** | **$2,000,000** | **$0** |
| 29 | Asset Management | $2,000,000 | $2,000,000 | $0 |
| | **Multiple Use Resources** | **$30,772,848** | **$31,434,779** | **$661,931** |
| 30 | Economic Development and Housing/Challenge (EDHC) - Regular | $24,117,848 | $24,279,779 | $161,931 |
| 31 | EDHC - Housing Infrastructure Bonds (HIB) | $0 | $0 | $0 |
| 32 | EDHC - Community-Owned Manufactured Home Parks | $2,000,000 | $2,000,000 | $0 |
| 33 | Single Family Interim Lending | $1,000,000 | $1,000,000 | $0 |
| 34 | Technical Assistance and Operating Support | $2,655,000 | $2,655,000 | $0 |
| 35 | Strategic Priority Contingency Fund | $1,000,000 | $1,500,000 | $500,000 |
| | **Other** | **$3,013,814** | **$23,089,629** | **$20,075,815** |
| 36 | Manufactured Home Relocation Trust Fund | $1,170,281 | $1,163,695 | -$6,586 |
| 37 | Organizational Investments / Loans | $0 | $10,000,000 | $10,000,000 |
| 38 | Naturally Occurring Affordable Housing Investment / Loan | $0 | $10,000,000 | $10,000,000 |
| 39 | Disaster Relief Contingency Fund | $1,843,533 | $1,925,934 | $82,401 |
| | **Total** | **$1,042,176,561** | **$1,065,379,397** | **$23,202,836** |

* Includes funds from the Ending Long-Term Homelessness Initiative Fund under the 2016 AHP.

Minnesota Housing Finance Agency

# 2017 Affordable Housing Plan
# For Board Approval

**September 15, 2016**

**With Track Changes from Public Comment Draft**

# Contents

# Summary - 2017 at a Glance

Minnesota confronts the troubling fact that a growing number of families and individuals struggle to afford a place to call home even when we have a strong economy and job market. Since 2000, the number of Minnesota households spending more than 30 percent of their income on housing increased 69 percent from 350,000 to 590,000. Having a stable, affordable home is the foundation for success, providing the stability for individuals and families to thrive. To remove the systemic and institutional barriers that people face in obtaining affordable housing, we must think and act differently, which will involve:

- Leveraging strong financial management to get the most out of scarce resources,
- Developing effective partnerships to create a strong network of lenders, developers, and community-based organizations who help people get the housing they need,
- Being flexible and responsive to meet changing housing needs across the state,
- Providing equitable access to programs and opportunity, and
- Removing barriers to affordable housing through innovation and creativity.

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We also need the resources to carry out this work and are excited to make available over $1 billion to assist over 64,000 Minnesota households with their housing needs in 2017.

**Table 1: Funding by Activity**

| Program Category | Funding |
|---|---|
| Homebuyer Financing and Home Refinancing | 634,700,000 |
| Homebuyer/Owner Education and Counseling | 2,767,000 |
| Home Improvement Lending | 22,600,000 |
| Rental Production - New Construction and Rehabilitation | 128,107,255 |
| Rental Assistance Contract Administration | 187,079,695 |
| Resources to Prevent and End Homelessness (Non-Capital) | 33,601,039 |
| Rental Portfolio Management | 2,000,000 |
| Multiple Use Resources | 31,434,779 |
| Other | 23,089,629 |
| **Total** | **1,065,379,397** |

Highlights include:

- Making available $600 million for home mortgage lending. We couple these resources with a strong track record of effectively serving households of color and Hispanic ethnicity to reduce the homeownership disparity.

- Redesigning our funding strategy with Twin Cities Habitat for Humanity to use our investment as seed capital to attract other investors and expand its business model.

- Redesigning our Qualified Allocation Plan (QAP) for housing tax credits to make it clearer and more transparent. Housing tax credits are our primary tool for financing rental housing development and rehabilitation.

- Supporting rental housing developments with funds from the National Housing Trust Fund and by forward committing a portion of the funds from the Economic Development and Housing Challenge program.

While we face significant challenges in having all Minnesotans live in a safe, stable home they can afford in a community of their choice, we are strengthening the infrastructure to move toward that vision.

# Chapter 1 – The Need

Housing is the foundation for success, providing individuals and families with the stability to thrive. To help build that foundation, this Affordable Housing Plan (AHP) will guide us in how we will allocate scarce housing resources for the next year. In addition to our continued commitment to providing equitable access to affordable homeownership and rental housing, the plan provides new direction on several focused and deliberate investments to address challenging issues that impact our most vulnerable residents. We know that where we focus our efforts and direct our resources, we can make a difference.

## Minnesota Needs More Affordable Housing

- After adjusting for inflation, median incomes have declined by 5.6 percent and monthly housing costs have increased by 8.1 percent since 2000.[1]

- As a result, the number of households spending more than 30 percent of their income on housing increased 69 percent from 350,000 in 2000 to 590,000 in 2014.[2]

- In just the last year, rents and home prices in the metro area both increased by 5.3 percent.[3] For example, average monthly rents increased from $1,018 to $1,072, and median home prices climbed from $229,000 to $242,000.

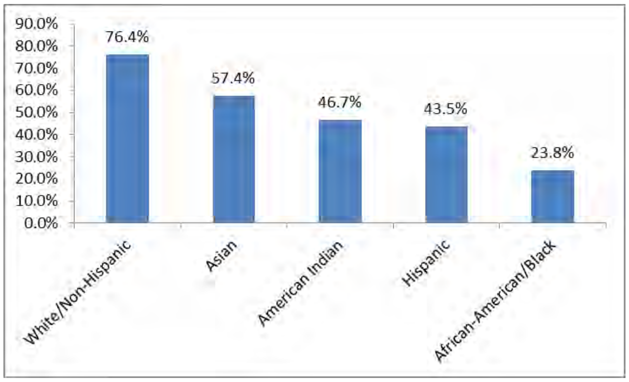
- The limited supply of housing will continue to drive up housing costs. The rental vacancy rate is about 3 percent around the state, well below the desired 5 percent that reflects a balanced market.[4] The months supply of homes for sale is 3.9 months (and just 2.9 months in the Twin Cities metro area), well below the desired 5 month supply.[5]

## Minnesota is Becoming More Diverse and Has Significant Disparities in Housing Outcomes

- The share of Minnesotans who are of color or Hispanic ethnicity will increase from 19 percent in 2015 to 25 percent in 2035.[6]

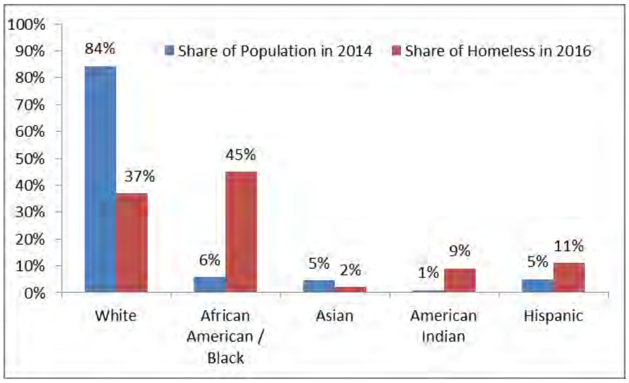
- Minnesota has the third highest homeownership disparity in the country. While 76.4 percent of white/non-Hispanic households own their home, only 41.0 percent of households of color or Hispanic ethnicity do.

**Figure 1: 2014 Minnesota Homeownership Rates by Race and Ethnicity**




- Households of color or Hispanic ethnicity are far more likely to be homeless, as shown in Figure 2. Fortunately, the number of homeless in Minnesota has dropped by 13 percent in the last two years, but still stands at 7,304 people in the latest count.[7]

**Figure 2: Share of Minnesota Population and Homeless by Race and Ethnicity[8]**




- Minnesota is also becoming older. The number of Minnesotans age 65 or older is expected to nearly double in the next 25 years.[9] Incomes of seniors decline as they age, increasing the demand for affordable housing.

# Chapter 2 – Our Approach

Minnesota Housing is much more than a financial institution with a mission – we are an organization striving to build on community strengths and create better places for families and individuals to thrive. To achieve our vision of all Minnesotans having a stable home they can afford in the community of their choice, we must be bolder, more creative, and more collaborative than ever before. It is not just about **what** we do, it is also about **how** we do it.

While the systemic and institutional barriers that have shut some people out of housing cannot be erased overnight, we are moving the needle on addressing some of the most serious challenges that Minnesotans face. Through dynamic partnerships and a flexible business model, we are able to take advantage of new opportunities and innovations in the area of affordable housing.

**Our Strategic Priorities**

- Reduce Minnesota's racial and ethnic homeownership disparity
- Prevent and end homelessness
- Preserve housing with federal project-based rent assistance
- Finance housing responsive to Minnesota's changing demographics
- Address specific and critical local housing needs

Along with our strategic priorities, mission, vision, and values, the following principles will guide our work in 2017:

- Leverage **strong financial management** to get the most out of scarce resources
- Develop **effective partnerships** to create a strong network of lenders, developers, and community-based organizations who help people get the housing they need
- Be **flexible and responsive** to meet changing housing needs across the state
- Provide **equitable access** to programs and opportunity
- Remove barriers to affordable housing through **innovation and creativity**

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## Leverage Strong Financial Management

With disciplined, risk-based financial management, we have built a strong balance sheet capable of producing earnings and providing some continuity of funding and services into the future. We can be flexible and innovative with Agency-generated funds, sometimes using them as seed capital to leverage additional private investment. By balancing near-term needs and long-term capacity, we can change the way we allocate resources to address both opportunities and challenges presented by the marketplace.

**Investing in Bridge to Success**
The foreclosure and financial crises created a large number of potential homebuyers who were unable to obtain a traditional mortgage and a large number of homes for sale in certain neighborhoods. In response, we invested $12.4 million in Bridge to Success, a contract-for-deed program that serves as an alternative financing arrangement for homebuyers who are unable to obtain a traditional mortgage. Today, with support from us and others, the program has invested $20.9 million and helped put 143 families on the path to successful homeownership.

Using a similar seed capital model, we are changing our investment strategy with Twin Cities Habitat for Humanity to address the challenge of increasing the supply of affordable new single family homes. Through 2020, we plan to invest an estimated $10 million, including $2.5 million from the 2017 AHP. These funds will help launch their mortgage capital acquisition strategy and create a $75 million lending pool, with the goal of serving over 400 new homebuyers, who will reflect Minnesota's increasingly diverse population.

***Our commitment to action* - In 2017 we will:**

- Identify, assess and possibly pursue other investment opportunities, including an investment fund through the Greater Minnesota Housing Fund to address the loss of naturally-occurring affordable housing (rental housing without public investments or assistance).
- Implement a business development plan that will increase our capacity to effectively serve multifamily developments with first mortgages.

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## Develop Effective Partnerships

To best serve Minnesota, particularly historically underrepresented communities, we will increase the number and depth of our organizational partnerships. We depend on a robust network of lenders, developers, community-based organizations, communities, and stakeholders across the state to both inform our priorities and deliver our products.

By listening and collaborating with all of these partners, we can better understand the barriers people experience, community needs, and the outcomes of our decisions. This allows us to respond to the needs of communities, collaborate with the right partners, learn from others as we craft solutions together, and work to close any gaps in our partnership network.

**Working with the Arrowhead Economic Development Association**
We work closely with the Arrowhead Economic Development Agency (AEOA) to create better outcomes for individuals, families, and communities in Northeastern Minnesota. We have supported AEOA through our Community Housing Development Organization operating support program and our Capacity Building Initiative to increase their capacity to serve their communities. We partner with them on programs from the single family Rehabilitation Loan Program to the Rental Rehabilitation Deferred Loan Program. We listened to their needs at Housing and Community Dialogues and made program improvements as a result. We also provided project-level technical assistance and worked with other partners to support AEOA so they could successfully access financing to develop the Ivy Manor Apartments in Virginia.

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In 2017, we seek to strengthen our partnership network. We will seek out organizations that connect with and serve particular cultural and ethnic groups and support organizations with limited resources as they serve a broad range of needs in large, often rural, geographies.

Other state agencies are also key members of our partnership network. Because housing is the foundation for success, we collaborate with them to achieve successful outcomes in health, education, economic stability, and other areas. Formal collaborations include the Interagency Council on Homelessness, the Olmstead Subcabinet, and the World's Best Workforce (an educational initiative to prepare children for the workforce). Activities such as coordinated grant making and ensuring that housing is coupled with needed support services play a key role.

***Our commitment to action* - In 2017 we will:**

- Invest new resources to develop effective relationships with organizations of all sizes.
- Work with the broader home-buying industry, including lenders, homeownership advisors and real estate agents to increase sustainable homeownership and address homeownership disparities.
- Increase our commitment to reaching out to historically underrepresented communities on an ongoing and consistent basis.
- Target our outreach and capacity building resources to communities where programs appear to be reaching far fewer people than the need suggests.
- Partner with organizations to better understand housing needs and options for action.

## Be Flexible and Responsive

In the last ten years, we have seen dramatic changes in the housing and financial markets and the State's economy and demographics. In addition, housing needs vary from community to community. To work in this environment and take advantage of the opportunities and innovations that arise, we have to be flexible and responsive. At the same time, we need to avoid creating too much complexity in our programs.

In response to changes in home prices and lending activity, and feedback from our lending partners, we recently increased the maximum downpayment and closing-cost loan available under our Deferred Payment Loan program from $5,500 to $7,500. With higher home prices and fewer sellers willing to pay the sale's transaction costs, lower-income households need additional assistance to become homebuyers. Our mortgage team listened to our lenders as market conditions changed, which has led to many more homebuyers.

**Creating the Rental Rehabilitation Deferred Loan (RRDL) Program**
In 2012, we created the Rental Rehabilitation Deferred Loan (RRDL) program to improve smaller rental properties in rural Minnesota. Like many new ventures, the program needed to be refined after it was launched. We responded to feedback from community-based organizations and made it more functional for landlords of smaller buildings. We simplified the application and underwriting process and made loans to properties with 1-4 units completely forgivable to encourage more rehabilitation of this critical source of affordable housing.

***Our commitment to action*** **- In 2017 we will:**

- Redesign the Qualified Allocation Plan (QAP) for federal tax credits so it is clear, transparent and responsive to the housing needs of Minnesotans with simpler and more straightforward selection criteria.
- Continue implementing our multifamily Remodel project – a redesign to improve and streamline the competitive process that rental housing developments go through from concept and application for funding to construction and lease-up.
- Continue implementing our new single-family loan origination system, which will provide an improved system for our lending partners.

## Provide Equitable Access to Programs and Opportunity

Part of creating an equitable society is giving all Minnesotans the opportunity to live in a safe, stable home they can afford in a community of their choice. While Minnesota has a high overall rate of homeownership, we also have the third highest gap in homeownership rates between white households and households of color and Hispanic ethnicity. We are committed to reducing this unacceptable racial and ethnic disparity. We have made significant strides, increasing our lending to households of color and Hispanic ethnicity by 69 percent between 2014 and 2015 from 674 to 1,141 first-time homebuyers. These households represented 29 percent of our first-time homebuyers. In contrast, they only account for 11 percent of lending by the overall mortgage industry in Minnesota.[10]

Developing partnerships with organizations and individuals deeply connected to communities of color and Hispanic ethnicity is a critical component of our strategy to reduce the homeownership disparity. Our staffing model includes business development representatives who reach out to lenders, real estate agents, and other professionals who work in communities that are historically underserved. Our team works with these active partners to deliver our lending programs. We also modified our downpayment and closing-cost loans to more effectively serve the needs of households of color and Hispanic ethnicity and people with barriers to successful homeownership.

**Addressing Homeownership Barriers**

Our Enhanced Homeownership Capacity Initiative (Homeownership Capacity) funds trusted community organizations that provide comprehensive homebuyer training and financial coaching that is both rooted in national best practices and specifically tailored to the needs of individual households. Currently, more than 90 percent of the participants are households of color or Hispanic ethnicity. As one of our recent homebuyers stated, "Homeownership … means stability, security, and strength."

While our mortgages account for roughly 5 percent of lending in Minnesota, we will challenge the entire home-buying industry to help us close the homeownership gap. We will continue participating in the Homeownership Opportunity Alliance – an industry coalition dedicated to closing the homeownership disparity gap.

Disparities and inequitable access to opportunity goes beyond homeownership. People of color are far more likely to experience homelessness than people who are white. The instability created by homelessness reduces educational outcomes. In the 2015-16 school year, only 25 percent of third graders experiencing homelessness were proficient in reading compared with 39 percent of third graders who received free-and-reduce priced lunches, another low-income group.[11] To address these differences, we launched a rent assistance pilot for homeless and highly mobile students. Of the 124 families receiving assistance, 83 percent did not move while participating in the pilot, a strong indicator of housing stability. Of the 521 children in the participating families, over 90 percent are of color. In 2017, we will report on whether school attendance has improved for children in these families and use the lessons learned from the pilot to improve the design and operation of rental assistance provided through the Housing Trust Fund.

People with disabilities also face barriers to affordable housing. We are committed to implementing the state's Olmstead Plan and ensuring that people with disabilities have housing choices in the community. For example, we are now working to connect people with disabilities with our home improvement programs, including the Fix -Up Program and Rehabilitation Loan Program, to address accessibility needs in their homes. This includes reaching out to the Minnesota State Council on Disability, PACER, and Minnesota Association for Centers for Independent Living to provide them more information and training about how our programs can help improve housing for people with disabilities.

***Our commitment to action*** **- In 2017 we will:**

- Increase our outreach and work with historically underrepresented communities as not only people who use our programs but also as leaders and partners in the work we do every day.

- Recognizing our role as participants in the Minnesota economy, improve contracting and hiring goals for developments that receive funding from Minnesota Housing.
- Consistent with the goals of the Statewide Plan to End Homelessness, incorporate equity criteria into our decision-making about which organizations receive our grant dollars so that our service delivery partners are more reflective of the communities that they serve.
- Create a pilot to reach renters living in properties funded by Minnesota Housing who are good candidates for homeownership. The initiative will not only increase home-buying opportunities, it could also free up scarce affordable units for other low-income renters.

## Remove Barriers to Affordable Housing through Innovation and Creativity

Providing equitable access to programs and opportunity, particularly for the hardest to house, requires new thinking. There are many factors that create barriers for individuals and families to access affordable housing in a community of their choice. Because many of these factors are so deeply rooted in systemic and institutional biases, we cannot address them with traditional thinking. We strive to develop innovative and creative approaches to address these persistent barriers.

To develop creative and innovative solutions, we must understand the barriers to accessing affordable housing. Some people face racial discrimination. Others have to overcome societal biases toward their disabilities. A person's history can also be a barrier, including criminal records, evictions, and poor credit. The key is to create solutions that treat each person as an individual and with dignity.

**Supporting Collaboration and Innovative Solutions**

In the City of Bemidji, homelessness was taking a toll on the community, families, and individuals. While churches and nonprofit organizations worked to develop short-term emergency shelters, the community came together around a development by Center City Housing Corporation for 60 new apartments, including ten units for people who had experienced long term homelessness. A primary goal was to create homes for individuals who were chronic inebriates. The leadership of organizations like Headwaters Regional Development Commission and the partnership with businesses, tribal communities, social service agencies, the city, and local law enforcement present a model of how communities can work together to address a local crisis. This development, which includes partnerships with both the Leech Lake and Red Lake tribal communities, will ensure that there are safe stable affordable housing opportunities for people with a wide range of housing and service needs.

***Our commitment to action*** **- In 2017 we will:**

- Continue to provide guidance to rental property owners regarding overly restrictive tenant screening policies that make it difficult for people to access safe, stable, affordable housing. We recently provided our multifamily development partners guidance on tenant selection plans that will create rental housing opportunities for more people. Our tenant selection plan guidance is consistent with HUD's recent guidance on criminal background screening, which suggests that arrests alone should not be a basis for rejecting a prospective tenant and that the nature and severity of the crime, as well as the amount of time that has passed, should be considered.

- Provide guidance and monitoring to property owners in our portfolio regarding their Affirmatively Furthering Fair Housing Marketing Plans.
- Create a landlord risk mitigation fund pilot with funding authorized by the 2016 Legislature to encourage landlords to rent to people they might not otherwise. Under the pilot, eligible landlords will be reimbursed for damages, lost rent, or eviction costs that are greater than the tenant's security deposit. This program will use research on effective practices from around the nation. In many programs, the reimbursement funds are paired with other strategies, such as housing location and support services for the tenants and landlord-tenant mediation.

## Looking Ahead

As we undertake the work outlined in this AHP, we do so in an environment where the need for affordable housing continues to grow. While we are fortunate to live in a State with a growing economy and a healthy job market, the combination of stagnant wages for many low and moderate income workers and rapidly rising housing costs means that many Minnesota households still live in unhealthy or unstable homes, or pay too much of their monthly income for housing.  That's why we target our resources and use them to attract other resources to the housing sector.

As we make specific plans for 2017, we are also aware that there are other issues emerging in the housing market that will likely require our attention. For example:

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- After more than a 10-year period when tax-exempt bonding authority was plentiful, we expect that the demand for bonding authority to exceed the amounts available. Our review of this situation may suggest changes to policies for how projects requesting tax-exempt bonds and 4 percent housing tax credits are evaluated.
- In recent months, the number of manufactured home park communities facing closure has increased. If this trend continues, we will evaluate how we work with the communities and households that stand to lose this housing, which is often deeply affordable.

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- Following the great recession, there was a general increase in the number of single family homes in Minnesota communities being used as rental properties. Communities have begun to raise concerns about the physical condition of these properties. We will identify and consider possible options for bringing more resources to this segment of the rental housing market.

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- As we assess additional research on the housing needs of seniors and the applications that we received under a pilot for senior rental housing, we will refine our strategy for serving the growing number of lower-income seniors.

We look forward to working with communities and partners across the State to maximize the positive impact of the programs outlined in this AHP while we also assess these emerging and growing challenges.

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# Chapter 3 – Resources for Our Work

We are excited to make available over $1 billion for housing assistance in 2017. This chapter provides an overview of our programs and budget for 2017. Appendices A and B provide details about our funding and include detailed overviews of each program.

## Budget and Program Overview

We carry out a wide range of affordable housing activities, ranging from grants for homelessness prevention and rent assistance to mortgages to buy and improve homes. Three programs account for a majority of the 2017 budget:

- **Home Mortgage Loans** (line 1) will provide a projected $600 million of lending and support an estimated 3,750 homebuyers in 2017.

- **Rental Assistance Contract Administration** (lines 23-24) includes $187 million of federal rental assistance for more than 30,000 of the state's lowest income households. With this assistance, households spend no more than 30 percent of their income on rent.

- **Low-Income Housing Tax Credits** (line 16) is our primary program for developing and rehabilitating affordable rent housing. The $9.5 million of credits will generate an estimated $90 million in private equity to construct or preserve about 650 units of affordable rental housing.

Table 2 also shows, by program, the median incomes of the low- and moderate-income households that we served in 2015, which range from $9,000 to $68,000:

| PROGRAM | MEDIAN INCOME |
|---|---|
| • Rent assistance programs (lines 23 to 28): | $9,126 to $12,522 |
| • Low and Moderate Income Rental (line 12): | $22,499 |
| • Habitat for Humanity Initiative (line 6): | $31,932 |
| • Home Mortgage Loans (line 1): | $51,159 |
| • Home Improvement Loan Program (line 10): | $68,132 |

**Table 2: 2016 and 2017 Program and Budget Overview**

| | | 2016 Original Funding Level | 2017 Funding Level | Activity | Median Income Served (2015) | Percentage Served from Communities of Color (2015) |
|---|---|---|---|---|---|---|
| | **Homebuyer Financing and Home Refinancing** | **$533,700,000** | **$634,700,000** | | | |
| 1 | Home Mortgage Loans | $510,000,000 | $600,000,000 | First Mortgage | $51,159 | 27.0% |
| 2 | Targeted Mortgage Opportunity Program | $4,000,000 | $0 | First Mortgage | $49,237 | 84.5% |
| 3 | Mortgage Credit Certificates (MCC) | $15,400,000 | $5,700,000 | Tax Credit on Home Mortgage Interest | $60,969 | 15.8% |
| 4 | Deferred Payment Loans | $11,000,000 | $15,500,000 | Downpayment and Closing Cost Loans | $43,680 | 32.6% |
| 5 | Monthly Payment Loans | $11,300,000 | $11,000,000 | Downpayment and Closing Cost Loans | $66,537 | 24.6% |
| 6 | Habitat for Humanity Initiative | $2,000,000 | $2,500,000 | Homebuyer Financing | $31,932 | 77.6% |
| | **Homebuyer/Owner Education and Counseling** | **$2,267,000** | **$2,767,000** | | | |
| 7 | Homebuyer Education, Counseling & Training (HECAT) | $1,517,000 | $1,517,000 | Education & Counseling | $35,780 | 41.9% |
| 8 | National Foreclosure Mitigation Counseling (NFMC) | $0 | $0 | Education & Counseling | N/A | N/A |
| 9 | Enhanced Homeownership Capacity Initiative | $750,000 | $1,250,000 | Education & Counseling | $33,384 | 93.2% |
| | **Home Improvement Lending** | **$25,980,000** | **$22,600,000** | | | |
| 10 | Home Improvement Loan Program | $17,380,000 | $14,000,000 | Home Improvement Loan | $68,132 | 9.0% |
| 11 | Rehabilitation Loan Program (RLP) | $8,600,000 | $8,600,000 | Home Improvement Loan | $14,195 | 18.5% |
| | **Rental Production- New Construction and Rehabilitation** | **$128,395,925** | **$128,107,255** | | | |
| 12 | First Mortgage - Low and Moderate Income Rental (LMIR) | $70,000,000 | $60,000,000 | Amortizing Loan | $22,449 | 53.1% |
| 13 | First-Mortgage - MAP Lending (Multifamily Accelerated Processing) | $15,000,000 | $20,000,000 | Amortizing Loan | N/A | N/A |
| 14 | Flexible Financing for Capital Costs (FFCC) | $3,500,000 | $0 | Deferred Loan | N/A | N/A |
| 15 | Multifamily Flexible Capital Account | $0 | $4,500,000 | Deferred Loan | N/A | N/A |
| 16 | Low-Income Housing Tax Credits (LIHTC) | $9,308,770 | $9,546,045 | Investment Tax Credit | $21,862 | 42.2% |
| 17 | National Housing Trust Fund | $0 | $3,000,000 | Deferred Loans and Operating Grants | N/A | N/A |
| 18 | Housing Trust Fund - Capital (Housing Infrastructure Bonds - HIB) | $10,849,200 | $3,000,000 | Deferred Loan | $9,423 | 50.2% |
| 19 | Preservation - Affordable Rental Investment Fund (PARIF) | $9,492,171 | $13,900,580 | Deferred Loan | $14,316 | 44.8% |
| 20 | HOME | $814,938 | $11,518,166 | Deferred Loan | $16,915 | 24.6% |
| 21 | Preservation - Publicly Owned Housing Program (POHP) - GO Bonds | $1,300,378 | $1,687,858 | Deferred Loan | $10,428 | 26.6% |
| 22 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | $8,130,468 | $954,606 | Deferred Loan | $14,435 | 8.3% |
| | **Rental Assistance Contract Administration** | **$181,322,117** | **$187,079,695** | | | |
| 23 | Section 8 - Performance Based Contract Administration | $129,000,000 | $135,000,000 | Rent Assistance | $11,796 | 36.3% |
| 24 | Section 8 - Traditional Contract Administration | $52,000,000 | $52,000,000 | Rent Assistance | $12,522 | 26.5% |
| 25 | Section 236 | $322,117 | $79,695 | Interest Rate Reduction | N/A | N/A |
| | **Resources to Prevent and End Homelessness (Non-Capital)** | **$30,325,668** | **$33,601,039** | | | |
| 26 | Housing Trust Fund (HTF)* - Net | $15,671,279 | $17,963,789 | Rent Assistance and Operating Support | $9,126 | 64.7% |
| 26a | Funding for new contracts | $2,595,000 | $33,332,578 | | | |
| 26b | Adj. to spread contracts over two years | $13,076,279 | -$15,368,789 | | | |
| 27 | Bridges - Net | $4,695,108 | $6,339,508 | Rent Assistance | $9,768 | 32.0% |
| 27a | Funding for new contracts | $2,607,216 | $9,471,799 | | | |
| 27b | Adj. to spread contracts over two years | $2,087,892 | -$3,132,292 | | | |
| 28 | Section 811 Supportive Housing Program | $1,217,100 | $500,000 | Rent Assistance | N/A | N/A |

| | | 2016 Original Funding Level | 2017 Funding Level | Activity | Median Income Served (2015) | Percentage Served from Communities of Color (2015) |
|---|---|---|---|---|---|---|
| 29 | Family Homeless Prevention and Assistance Program (FHPAP) - Net | $8,594,184 | $8,644,000 | Grants | $11,160 | 56.8% |
| 29a | Funding for new contracts | $0 | $17,288,000 | | | |
| 29b | Adj. to spread contracts over two years | $8,594,184 | -$8,644,000 | | | |
| 30 | Housing Opportunities for Persons with AIDS (HOPWA) | $147,997 | $153,742 | Grants | $17,137 | 47.0% |
| | **Rental Portfolio Management** | **$3,444,176** | **$2,000,000** | | | |
| 31 | Asset Management | $3,444,176 | $2,000,000 | Loans & Grants | N/A | N/A |
| | **Multiple Use Resources** | **$36,995,322** | **$31,434,779** | | | |
| 32 | Economic Development and Housing/Challenge (EDHC) - Regular | $19,575,000 | $24,279,779 | Loans and Grants | MF=$18,740 SF=$39,144 | MF=68.2% SF=53.4% |
| 33 | EDHC - Housing Infrastructure Bonds (HIB) | $9,480,800 | $0 | Deferred Loans | N/A | N/A |
| 34 | EDHC - Community-Owned Manufactured Home Parks | $2,000,000 | $2,000,000 | Amortizing Loans | N/A | N/A |
| 35 | Single Family Interim Lending | $1,562,000 | $1,000,000 | Construction Loan | N/A | N/A |
| 36 | Technical Assistance and Operating Support | $2,377,522 | $2,655,000 | Grants | N/A | N/A |
| 37 | Strategic Priority Contingency Fund | $2,000,000 | $1,500,000 | Loans & Grants | N/A | N/A |
| | **Other** | **$3,853,641** | **$23,089,629** | | | |
| 38 | Housing Infrastructure Bond Issuance and Other Costs | $900,000 | $0 | Admin. | N/A | N/A |
| 39 | Manufactured Home Relocation Trust Fund | $1,196,644 | $1,163,695 | Grants | N/A | N/A |
| 40 | Organizational Investments / Loans | $0 | $10,000,000 | Loans | N/A | N/A |
| 41 | Naturally Occurring Affordable Housing Investment / Loan | $0 | $10,000,000 | Loans | N/A | N/A |
| 42 | Disaster Relief Contingency Fund | $1,756,997 | $1,925,934 | Loans & Grants | N/A | N/A |
| | **Total** | **$966,283,849** | **$1,065,379,397** | | | |

NOTE: The section of the table addressing “Resources to Prevent and End Homelessness” has adjustments to reflect the two-year contracts for these programs. (See lines 26-29.) All funds are committed in the first year of the contract, but activities are carried out over the two years of the contract. The “a” part of the program line shows all the funds that will be committed to execute the contract, while the “b” part is an adjustment to spread out the activities over the two years of the contract. The “Net Activity” line (the part without a letter) shows the net level of activity in a year after the adjustment. The Family Homeless Prevention and Assistance Program (line 29) is the simplest example. In 2017, we will commit $17.288 million for the two year contracts (line 29a). To reflect program activity, half of those funds ($8.644 million) will be shifted out of 2017 (the negative number in line 29b) and into 2018. The net effect is the $8.644 million of program activity in both 2017 and 2018 (top part of line 29). While displaying both funding and program activity adds a level of complexity, it is necessary. The “a” line is needed from a budgeting perspective to show the funds that are needed to enter into a contract, while the “Net Activity” line more accurately reflects annual program activity.
* Includes funds from the Ending Long-Term Homelessness Initiative Fund under the 2016 AHP.

Funding under the 2016 and 2017 AHPs differ in three primary ways. (Line references are to Table 2 above.)

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- **In 2017, we expect to increase our mortgage lending by $90 million above the amount originally budgeted in 2016** (line 1). For 2016, we projected $510 million of lending, which was a significantly less than the $680 million we reached in 2015. We anticipated the decline because home prices and interest rates were expected to rise and mortgage lending had some regulatory changes. We expect 2016 lending to finish at an estimated $590 million and 2017 lending to have a similar volume. To support this lending, we increased funding for Deferred Payment Loans (line 4).

- **We will have fewer resources from Housing Infrastructure Bonds (lines 18 and 33).** We currently have $3.0 million of previously uncommitted Housing Infrastructure Bond funds available, which is a decrease from 2016. To help maintain multifamily rental construction and

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rehabilitation, we will use funds from other programs. For the first time ever, the federal government made available $3 million from the National Housing Trust Fund (line 17). We will also forward commit $6 million from the Economic Development and Housing Challenge program (line 32).

- **Using Agency resources, we plan address two housing issues – community development and preservation of naturally-occurring affordable housing (lines 40 and 41).** First, we plan to make available $10 million to support the Twin Cities Community Land Bank for foreclosure remediation and strategic land acquisition for housing development. Second, we are evaluating a potential $10 million investment through the Greater Minnesota Housing Fund to support the preservation of naturally-occurring affordable housing.

There are a few other notable changes that will not have a significant impact on the overall direction that we will take in 2017, but they are important for people interested in those specific programs.

- **Targeted Mortgage Opportunity Program (line 2)** – We suspended this pilot in 2016. The program provided a specialized mortgage product for borrowers who are likely to be successful homeowners but are unable to qualify for an industry-standard mortgage. The program ran into some programmatic and regulatory constraints. We are now investigating next steps and possible alternatives with our resources. This is a good example of how we are flexible and test new concepts, often through pilots. Sometimes they do not work as hoped, but we learn from those experiences, adjust, and move forward.

- **Mortgage Credit Certificates (MCCs) (line 3)** – Funding for the program will decline by $9.7 million. MCCs provide qualifying homebuyers with a tax credit on their mortgage interest. The authority to provide these credits derives from our tax-exempt bonding authority. While our tax-exempt bonding authority was plentiful, this was an effective program for supporting first-time homebuyers, and we used bonding authority that would have otherwise expired. Now that bonding authority is becoming more scarce, we will not convert more to MCCs.

- **Home Improvement Loan Program (line 10)** – The reduction in funding reflects a decline in the demand for installment loans. Many homeowners are now using home equity lines of credits or cash from refinancing their mortgages to pay for their home improvement projects.

- **Flexible Financing for Capital Costs (FFCC) and Multifamily Flexible Capital Account (lines 14 and 15)**. FFCC uses flexible Pool 3 funds to provide deferred loans to multifamily developments that receive a first mortgage from Minnesota Housing. (See Appendix A-1 for a detailed description of Pool 3 and our other funding sources.) There are also other financing gaps in rental housing proposals that need to be filled. To maximize our flexibility, we are creating a new account with Pool 3 resources to fund not only FFCC but also other deferred funding needs.

- **HOME and Rental Rehabilitation Deferred Loan (RRDL) (lines 20 and 22).** These funding changes are timing issues. In 2016, we originally did not budget any new 2016 HOME appropriations because of Congressional uncertainties and only budgeted the $814,938 that was still available from previous years. We later added the 2016 HOME appropriation to the 2016 AHP. For 2017, we are including the expected 2017 appropriation from the start. For the RRDL program, we run the Request for Proposal (RFP) process every other year. We ran it in 2016 with $8.1 million, which left $954,606 for projects in 2017. In 2018, we will run the next RFP with any new biennial appropriations.

## Household and Unit Projections

We expect to assist more than 64,000 households in 2017, as shown in Table 3.

**Deleted:** These projections are broken out in Table 3 below.¶

**Table 3: 2017 Forecast of Assisted Households or Housing Units, by Program**

| | Program | House-holds or Units |
|---|---|---|
| **Homebuyer Financing and Home Refinancing** | | **3,781** |
| 1 | Home Mortgage Loans | 3,750 |
| 2 | Mortgage Credit Certificates (MCC) | Included in First Mortgage Count |
| 3 | Deferred Payment Loans | |
| 4 | Monthly Payment Loans | |
| 5 | Habitat for Humanity Initiative | 31 |
| **Homebuyer/Owner Education & Counseling** | | **14,643** |
| 6 | Homebuyer Education, Counseling & Training (HECAT) & National Foreclose Mitigation and Counseling (NFMC) | 13,810 |
| 7 | Enhanced Homeownership Capacity Initiative | 833 |
| **Home Improvement Lending** | | **1,138** |
| 8 | Home Improvement Loan Program | 824 |
| 9 | Rehabilitation Loan Program (RLP) | 314 |
| **Rental Production- New Construction and Rehabilitation** | | **1,967** |
| 10 | Multifamily RFP/HTC/Pipeline Production | 1,890 |
| 11 | First Mortgage - Low and Moderate Income Rental (LMIR) | Part of RFP/ HTC/ Pipeline Total |
| 12 | First-Mortgage - MAP Lending (Multifamily Accelerated Processing) | |
| 13 | Flexible Financing for Capital Costs (FFCC) | |
| 14 | Multifamily Flexible Capital Account | |
| 15 | Low-Income Housing Tax Credits (LIHTC) | |
| 16 | National Housing Trust Fund | |
| 17 | Housing Trust Fund (Capital from Housing Infrastructure Bonds) | |
| 18 | Economic Development and Housing/Challenge (EDHC) - Regular | |
| 19 | EDHC - Housing Infrastructure Bonds (HIB) | |
| 20 | Preservation - Affordable Rental Investment Fund (PARIF) | |
| 21 | HOME | |
| 22 | Preservation - Publicly Owned Housing Program (POHP) | TBD |
| 23 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | 76 |

| | Program | House-holds or Units |
|---|---|---|
| **Rental Assistance Contract Administration** | | **30,727** |
| 24 | Section 8 - Performance Based Contract Administration | 21,420 |
| 25 | Section 8 - Traditional Contract Administration | 8,935 |
| 26 | Section 236 | 372 |
| **Resources to Prevent and End Homelessness (Non-Capital)** | | **11,733** |
| 27 | Housing Trust Fund (HTF) | 3,456 |
| 28 | Bridges | 810 |
| 29 | Section 811 Supportive Housing Program | 93 |
| 30 | Family Homeless Prevention and Assistance Program (FHPAP) | 7,203 |
| 31 | Housing Opportunities for Persons with AIDS (HOPWA) | 171 |
| **Rental Portfolio Management** | | **100** |
| 32 | Asset Management | 100 |
| **Multiple Use Resources** | | **397** |
| 33 | EDHC - Single Family Regular RFP | 317 |
| 34 | EDHC - Housing Infrastructure Bonds (HIB) - Community Land Trusts | 0 |
| 35 | EDHC - Community-Owned Manufactured Home Parks | 80 |
| 36 | Single Family Interim Lending | Part of RFP Total |
| 37 | Technical Assistance and Operating Support | N/A |
| 38 | Strategic Priority Contingency Fund | TBD |
| **Other** | | **0** |
| 39 | Manufactured Home Relocation Trust Fund | TBD |
| 40 | Organizational Investments / Loans | TBD |
| 41 | Naturally Occurring Affordable Housing Investment / Loan | TBD |
| 42 | Disaster Relief Contingency Fund | TBD |
| **Total** | | **64,486** |

### Homebuyer Financing and Home Refinancing

Figure 3 shows our production for home mortgage loans, which held steady between 2,300 and 2,800 loans between 2012 and 2014. Our lending then took off in 2015; and as expected, it has declined in 2016 with higher home prices and regulatory changes. We now expect production for 2016 will be about 3,700 loans, and 2017 should be similar.

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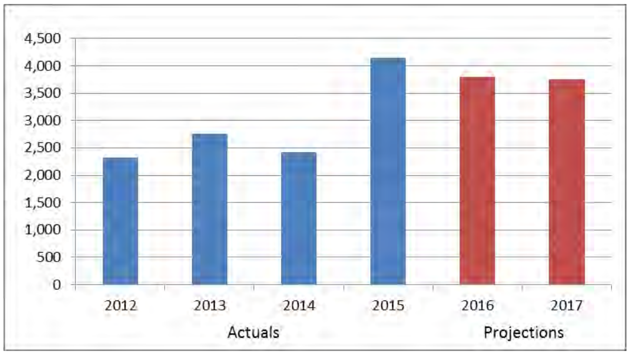
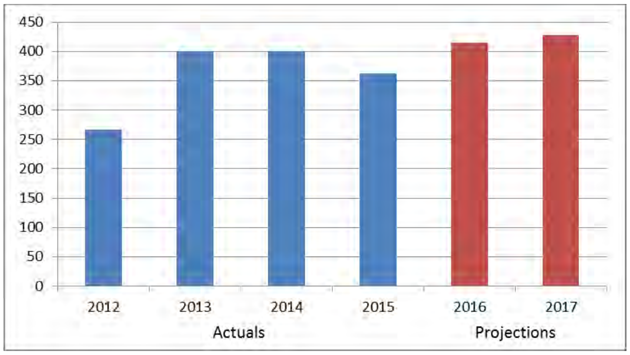
**Figure 3: Households/Homes Assisted - Home Mortgage Loans**




In 2017, we expect the number of households served under “other homeownership opportunities” (Figure 4) to increase slightly. For 2017, we received a supplemental $750,000 appropriation for these activities. (Figure 4 includes the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program (including HIB), and Single Family Interim Lending.)

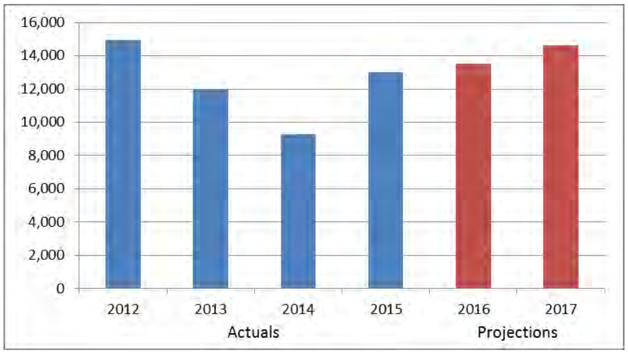
**Figure 4: Households/Homes Assisted - Other Homeownership Opportunities**



### Homebuyer/Owner Capacity Building – Education and Counseling

The initial downward trend shown in Figure 5 reflects the declining need for foreclosure counseling, while the need for homebuyer education continues. The number of households assisted increased in 2015 with the addition of the Homeownership Center's online course for homebuyers called Framework, which is an alternative to traditional classroom training. (Figure 5 includes Homebuyer Education, Counseling & Training (HECAT), National Foreclosure Mitigation and Counseling (NFMC), and the Enhanced Homeownership Capacity Initiative.)

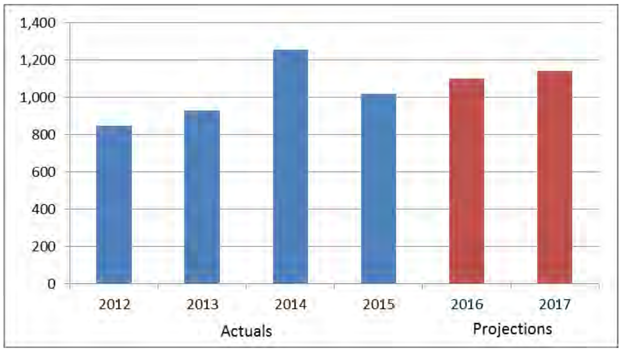
**Figure 5: Households Assisted – Homebuyer/Homeowner Education and Counseling**




### Home Improvement Lending

Home improvement production (Figure 6) was limited after the recession. From 2012 through 2014, we saw increases but production has since subsided. The availability of home equity lines of credits and cash from mortgage refinancing has limited demand for our installment loans. Activity in 2017 should be similar to 2016. (Figure 6 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

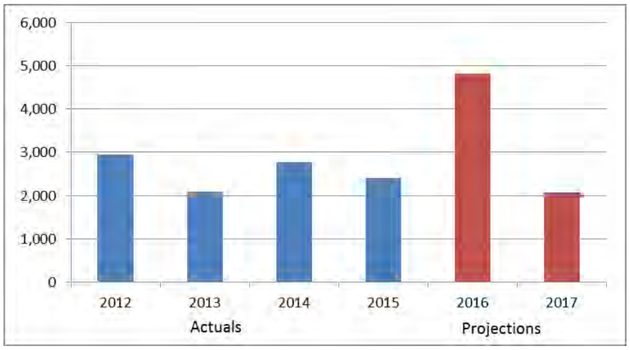
**Figure 6: Households/Homes Assisted – Home Improvement Programs**



### Rental Production and Portfolio Management

In a typical year, production varies between 2,000 and 3,000 units, and we expect 2017 to fall on the lower end of this range with currently available resources. In addition, we expect more new construction than in previous years, which requires more funding per unit than rehabilitation. Activity in 2016 is particularly high with the construction of developments that received Housing Infrastructure Bond and General Obligation Bond proceeds from October 2014 awards. (Figure 7 captures all the programs in the rental production category, the multifamily portion of the Economic Development and Housing/Challenge program, and all the activity in the rental portfolio management category.)

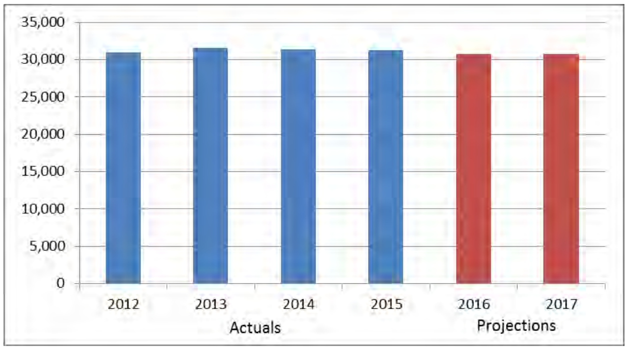
**Figure 7: Units Assisted – Rental Production and Portfolio Management**




### Rental Assistance Contract Administration

Activity in the Section 8 and 236 contract administration has been very steady (Figure 8). These are ongoing contracts that we administer, and the number of households served does not vary significantly from year to year.

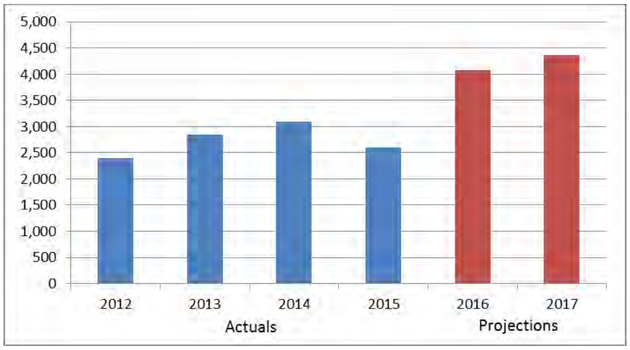
**Figure 8: Households Assisted – Rental Assistance Contract Administration**



**Resources to Prevent and End Homelessness (Non-Capital)**

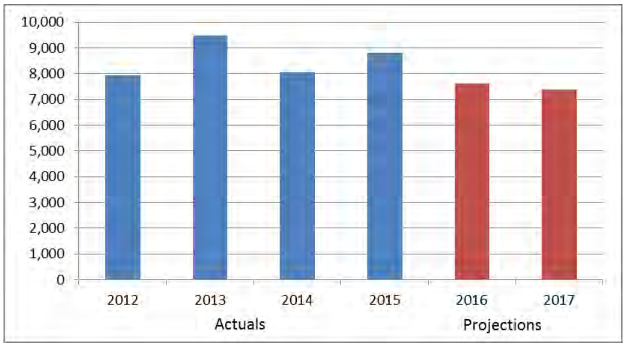
Since 2012, there has been an increase in activity for state and Agency funded rental assistance and operating subsidies (Figure 9). For 2016 and 2017, we received an additional $2.5 million for the Bridges program, which provides rental assistance to people with a serious mental illness. We also added the Section 811 program that serves people with disabilities. (Figure 9 includes Housing Trust Fund, Bridges, and Section 811.)

**Figure 9: Households/Units Assisted – Agency Rental and Operating Assistance**




The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and Housing Opportunities Program for Persons with AIDS (HOPWA) has been relatively steady (Figure 10). The number has declined slightly in recent years as FHPAP has targeted harder-to-serve clients, which requires more funding per household.

**Figure 10: Households Assisted – Targeted Assistance – FHPAP and HOPWA**



# Notes

[1] Minnesota Housing analysis of data from the U.S. Census Bureau's *American Community Survey* (2000 and 2014).
[2] Minnesota Housing analysis of data from the U.S. Census Bureau's *2000 Decennial Census* and *2014 American Community Survey*.
[3] Marquette Advisors, *Apartment Trends: Twin Cities Metro Area* (1st Quarter 2016), p. 2. The average rent increased from $1,018 in March 2015 to $1,072 in March 2016. Minneapolis Area Association of REALTORS, *Monthly Indicators* (June 2016), p. 8. The median price increased from $229,900 in June 2015 to $242,000 in June 2016. The rents and home prices are not adjusted for inflation.
[4] Marquette Advisors, *Apartment Trends: Twin Cities Metro Area* (1st Quarter 2016), p. 2; and various local market studies.
[5] Minnesota REALTORS, *Monthly Indicators* (June 2016), p. 12; and Minneapolis Area Association of REALTORS, *Monthly Indicators* (June 2016), p. 15.
[6] Minnesota Housing analysis of data from the Minnesota State Demographer.
[7] HUD 2015-16 *Point-in-Time Counts*.
[8] Minnesota Housing analysis of data from the U.S. Census Bureau's *2014 American Community Survey* and HUD's *2016 Homeless Point-in-Time Count*.
[9] Minnesota Housing analysis of data from the Minnesota State Demographer.
[10] Minnesota Housing analysis of data from the Federal Financial Institutions Examination Council collected under the Home Mortgage Disclosure Act (HMDA).
[11] Minnesota Department of Education.

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# Appendix A
# Funding Sources

# Appendix A-1: Overview of Funding Sources

Our strong balance sheet and financial resources are among our key strengths. This Appendix describes each of our funding sources and outlines how we will use them in 2017. The table in Appendix A-2 shows how we allocate resources from each source to each program.

Table 4 shows the 2017 AHP funding levels from each source and compares it with the original 2016 AHP. We then describe how each source operates after the discussion of Table 4.

**Table 4: 2017 Funding by Source**

| Program Category | Original 2016 AHP | 2017 AHP |
|---|---|---|
| Federal Resources | $196,255,098 | $213,797,648 |
| State Appropriated Resources | $76,315,060 | $84,694,391 |
| State Capital Investments (GO & Housing Infrastructure Bonds) | $22,530,378 | $4,687,858 |
| Agency Bond Proceeds and Other Mortgage Capital | $580,400,000 | $660,700,000 |
| Housing Investment Fund (Pool 2) | $66,432,450 | $74,227,500 |
| Housing Affordability Fund (Pool 3) | $24,350,863 | $27,272,000 |
| **Total** | **$966,283,849** | **$1,065,379,397** |

A few sources in 2017 will have sizable changes from what we originally budgeted in 2016.

- **Agency Bond Proceeds & Other Mortgage Capital** will increase by about $80.3 million. As discussed earlier, mortgage production in 2016 turned out to be higher than we originally anticipated. We expect 2017 production to be similar to the final 2016 level.

- **State Capital Investments (GO and Housing Infrastructure Bonds)** will decrease by about $17.8 million. Last year, we had $22.5 million in these resources, while this year, we have $4.7 million. The Governor recommended $90 million in additional funding in his capital investment proposal to the 2016 Legislature. The 2016 Legislature did not take action on a capital investment bill.

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- **Federal Resources** will essentially remain the same. However, last year, we delayed budgeting the 2016 federal appropriation for HOME because the amount was uncertain. This year, we are budgeting it ahead of time so that we do not delay getting the funds committed. In addition, the HOME program will likely generate about $1.2 million in program repayments, which will be reused for new projects. We also expect to receive $6 million more to make Section 8 contract payments.

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- **State Appropriated Resources** will be slightly higher. The 2016 Legislature appropriated $1.5 million in supplemental funds for three specific programs. In addition, we expect a higher level of loan repayments from previously appropriated funds, which we will recommit this year.

- **Housing Investment Fund (Pool 2)** investments will increase by $7.8 million. This reflects a few changes, including $20 million of new investments to support the Twin Cities Community Land Bank and to preserve naturally-occurring affordable housing. This increased investment is partially offset by a couple decreases. This includes a $5 million reduction in lending under the Low and Moderate Income Rental (LMIR) program, due to lower overall multifamily production, and a $4 million reduction under the Targeted Mortgage Opportunity Program, which is a pilot program.

- **Housing Affordability Fund (Pool 3)** investments will increase by $2.9 million. The availability of Pool 3 depends largely on our earnings. In allocating Pool 3 resources, we also balance immediate and future needs that will draw upon Pool 3.

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These six funding sources operate as described below. The precise amount of some funding is known at the time the plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the year. Staff uses various analytical approaches (including fund cash flow analysis) to project the amount of resources available for housing programs.

**Federal Resources.** There are two types of federal resources: (1) appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing, and (2) Low-Income Housing Tax Credits from the Internal Revenue Service (IRS). For planning purposes, we generally assume that 2017 funding will remain at its 2016 level. The amount of federal housing tax credits is based on a per capita formula and may vary slightly each year.

**State Appropriations.** The amount of funding is largely based on the 2016-17 general fund budget adopted by the 2015 Minnesota Legislature. We generally split the appropriations evenly between state fiscal years 2016 and 2017, unless otherwise noted.

**State Capital Investments.** These funds come from the state capital budget (bonding bill) and include General Obligation and Housing Infrastructure Bond proceeds. There are no new resources for 2017 because the 2016 Legislature did not take action on a capital investment bill.

**Agency Bond Proceeds and Other Mortgage Capital.** Bond proceeds are generated by the issuance of tax-exempt bonds. Tax-exempt bond proceeds have historically been limited by the amount of new bonding authority under a state allocation formula, the projected amount of bonds refunded over the next year, and an estimate of the amount of bonding authority contributed by cities and counties for issuance on their behalf. In recent years, market conditions have made it difficult to use all of the available bonding authority. However, that is no longer the case, and bonding authority has once again become a scarce resource that we will need to manage very carefully. We also sell some of our mortgage-backed securities on the secondary market as another way to access attractively-priced private capital. Finally, for a couple of years now, we accessed a new source of mortgage capital for rental housing. We became a MAP (Multifamily Accelerated Processing) lender and now originate FHA-insured mortgages that are financed through a third-party investor.

**Agency Resources.** We generate resources from our lending activities and make them available for investment in housing programs. Agency resources are currently categorized as follows:

- **Housing Investment Fund (Pool 2) for amortizing loans and investments**. The Housing Investment Fund's balance is set according to the net asset requirements and investment guidelines adopted by our Board in April, 2007 after review and confirmation with the rating agencies and our cash flow projections. The level of funding that must be retained in Pool 2 is an amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3) to be not less than the combined net assets of the same funds for the immediately preceding audited fiscal year end. The practical result of this requirement is to set the amount of current period earnings as an upper limit on the amount that can be annually transferred from Pool 2 to Pool 3.

  According to Board policy, the use of Pool 2 funds is limited to investment quality amortizing loans and investment grade securities. Most of the net assets in Pool 2 are already invested in housing loans, so it is the Pool 2 liquid assets and expected loan repayments that are available for budgeting in the Plan.

- **Housing Affordability Fund (Pool 3) for deferred loans and grants.** The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund described above. The sources of ongoing funding for Pool 3 are transfers from Pool 2 that capture a portion of current period earnings, combined with any repayments or prepayments from loans previously funded under Pool 3.

  This fund is more flexible than the Housing Investment Fund, and it may be used for programs not resulting in amortizing, investment quality loans, including deferred loans and grants.

# Appendix A-2: 2017 Program Funding by Source

| | | 2017 Total | Federal Resources | State Appropriations | State Capital Investment (GO & Housing Infrastructure Bonds) | Agency Bond Proceeds and Other Mortgage Capital | Housing Investment Fund (Pool 2) | Housing Affordability Fund (Pool 3) |
|---|---|---|---|---|---|---|---|---|
| | **Homebuyer Financing and Home Refinancing** | **$634,700,000** | **$0** | **$3,285,000** | **$0** | **$605,700,000** | **$12,500,000** | **$13,215,000** |
| 1 | Home Mortgage Loans | $600,000,000 | | | | $600,000,000 | | |
| 2 | Mortgage Credit Certificates (MCC) | $5,700,000 | | | | $5,700,000 | | |
| 3 | Deferred Payment Loans | $15,500,000 | | $3,285,000 | | | | $12,215,000 |
| 4 | Monthly Payment Loans | $11,000,000 | | | | | $11,000,000 | |
| 5 | Habitat for Humanity Initiative | $2,500,000 | | | | | $1,500,000 | $1,000,000 |
| | **Homebuyer/Owner Education & Counseling** | **$2,767,000** | **$0** | **$2,017,000** | **$0** | **$0** | **$0** | **$750,000** |
| 6 | Homebuyer Education, Counseling & Training (HECAT) | $1,517,000 | | $1,517,000 | | | | |
| 7 | National Foreclosure Mitigation Counseling (NFMC) | $0 | $0 | | | | | |
| 8 | Enhanced Homeownership Capacity Initiative | $1,250,000 | | $500,000 | | | | $750,000 |
| | **Home Improvement Lending** | **$22,600,000** | **$0** | **$3,772,000** | **$0** | **$0** | **$13,727,500** | **$5,100,500** |
| 9 | Home Improvement Loan Program | $14,000,000 | | | | | $13,727,500 | $272,500 |
| 10 | Rehabilitation Loan Program (RLP) | $8,600,000 | | $3,772,000 | | | | $4,828,000 |
| | **Rental Production- New Construction and Rehabilitation** | **$128,107,255** | **$24,064,211** | **$14,855,186** | **$4,687,858** | **$55,000,000** | **$25,000,000** | **$4,500,000** |
| 11 | First Mortgage - Low and Moderate Income Rental (LMIR) | $60,000,000 | | | | $35,000,000 | $25,000,000 | |
| 12 | First Mortgage - MAP Lending (Multifamily Accelerated Processing) | $20,000,000 | | | | $20,000,000 | | |
| 13 | Flexible Financing for Capital Costs (FFCC) | $0 | | | | | | $0 |
| 14 | Multifamily Flexible Capital Account | $4,500,000 | | | | | | $4,500,000 |
| 15 | Low-Income Housing Tax Credits (LIHTC) | $9,546,045 | $9,546,045 | | | | | |
| 16 | National Housing Trust Fund | $3,000,000 | $3,000,000 | | | | | |
| 17 | Housing Trust Fund - Capital (Housing Infrastructure Bonds) | $3,000,000 | | $0 | $3,000,000 | | | $0 |
| 18 | Preservation Affordable Rental Investment Fund (PARIF) | $13,900,580 | | $13,900,580 | | | | |
| 19 | HOME | $11,518,166 | $11,518,166 | | | | | |
| 20 | Preservation - Publicly Owned Housing Program (POHP) | $1,687,858 | | | $1,687,858 | | | |
| 21 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | $954,606 | | $954,606 | | | | |
| | **Rental Assistance Contract Administration** | **$187,079,695** | **$187,079,695** | **$0** | **$0** | **$0** | **$0** | **$0** |
| 22 | Section 8 - Performance Based Contract Administration | $135,000,000 | $135,000,000 | | | | | |
| 23 | Section 8 - Traditional Contract Administration | $52,000,000 | $52,000,000 | | | | | |
| 24 | Section 236 | $79,695 | $79,695 | | | | | |
| | **Resources to Prevent and End Homelessness (Non-Capital)** | **$33,601,039** | **$653,742** | **$32,720,797** | **$0** | **$0** | **$0** | **$226,500** |
| 25 | Housing Trust Fund (HTF) - **Net Activity** | $17,963,789 | | $17,963,789 | | | | $0 |
| 25a | Funding for new contracts | $33,332,578 | | $33,332,578 | | | | $0 |
| 25b | Adj. to spread two-year contracts over two years | -$15,368,789 | | -$15,368,789 | | | | $0 |
| 26 | Bridges - **Net Activity** | $6,339,508 | | $6,113,008 | | | | $226,500 |
| 26a | Funding for new contracts | $9,471,799 | | $9,018,799 | | | | $453,000 |
| 26b | Adj. to spread two-year contracts over two years | -$3,132,292 | | -$2,905,792 | | | | -$226,500 |
| 27 | Section 811 Supportive Housing Program | $500,000 | $500,000 | | | | | |
| 28 | Family Homeless Prevention and Assistance Program (FHPAP) - **Net Activity** | $8,644,000 | | $8,644,000 | | | | |
| 28a | Funding for new contracts | $17,288,000 | | $17,288,000 | | | | |
| 28b | Adj. to spread two-year contracts over two years | -$8,644,000 | | -$8,644,000 | | | | |
| 29 | Housing Opportunities for Persons with AIDS (HOPWA) | $153,742 | $153,742 | | | | | |

# Appendix A-2: 2017 Program Funding by Source

| | | 2017 Total | Federal Resources | State Appropriations | State Capital Investment (GO & Housing Infrastructure Bonds) | Agency Bond Proceeds and Other Mortgage Capital | Housing Investment Fund (Pool 2) | Housing Affordability Fund (Pool 3) |
|---|---|---|---|---|---|---|---|---|
| | **Rental Portfolio Management** | **$2,000,000** | **$2,000,000** | **$0** | **$0** | **$0** | **$0** | **$0** |
| 30 | Asset Management | $2,000,000 | $2,000,000 | | | | | |
| | **Multiple Use Resources** | **$31,434,779** | **$0** | **$24,954,779** | **$0** | **$0** | **$3,000,000** | **$3,480,000** |
| 31 | Economic Development and Housing/Challenge (EDHC) - Regular | $24,279,779 | | $24,279,779 | | | | |
| 32 | EDHC - Housing Infrastructure Bonds (HIB) | $0 | | | $0 | | | |
| 33 | EDHC - Community-Owned Manufactured Home Parks | $2,000,000 | | | | | $2,000,000 | |
| 34 | Single Family Interim Lending | $1,000,000 | | | | | $1,000,000 | |
| 35 | Technical Assistance and Operating Support | $2,655,000 | | $675,000 | | | | $1,980,000 |
| 36 | Strategic Priority Contingency Fund | $1,500,000 | | | | | | $1,500,000 |
| | **Other** | **$23,089,629** | **$0** | **$3,089,629** | **$0** | **$0** | **$20,000,000** | **$0** |
| 37 | Manufactured Home Relocation Trust Fund | $1,163,695 | | $1,163,695 | | | | |
| 38 | Organizational Investments / Loans | $10,000,000 | | | | | $10,000,000 | |
| 39 | Naturally Occuring Affordable Housing Investment / Loan | $10,000,000 | | | | | $10,000,000 | |
| 40 | Disaster Relief Contingency Fund | $1,925,934 | | $1,925,934 | | | | |
| | **2016 Proposed AHP Total** | **$1,065,379,397** | **$213,797,648** | **$84,694,391** | **$4,687,858** | **$660,700,000** | **$74,227,500** | **$27,272,000** |

# Appendix B
# Program Descriptions

# Contents

## Notes on reading the program descriptions:

- "Housing Investment Fund" and "Pool 2" refer to the same resource.
- "Housing Affordability Fund" and "Pool 3" refer to the same resource.
- The sum of the projections for the number of housing units or households assisted by individual programs during the plan period exceed the total number of households projected to be served across all programs. This occurs because some households or housing units will receive assistance from multiple programs in order to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation and program trends.
- Several programs have multiple funding sources, which may necessitate some differences in program rules depending on the funding sources.
- The tables in the narratives show funds available for commitment in 2017.

## Home Mortgage Loans

We offer three home mortgage programs. The first two (Start Up and MCC with first mortgage programs) serve first-time homebuyers; the third (Step Up) assists current homeowners refinancing or purchasing homes. Under the programs, participating lenders originate fully-amortizing first mortgages throughout the state. Each of the three loan types offers loans for downpayment and closing costs that are structured to meet the needs of low- and moderate-income homeowners.

In the current business model for homeownership, we accesses capital to finance the purchase of mortgage-backed securities containing program mortgages by selling bonds and/or selling our mortgage-backed securities on the secondary market.

We remain committed through our programs to serve households of color or Hispanic ethnicity and households with incomes below 80 percent of area median income.

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Current household income limits for first-time buyers:

| Property Location | Maximum Household Income | |
|---|---|---|
| | 1-2 person | 3 or more |
| Minneapolis/Saint Paul (11-county area) | $86,600 | $99,500 |
| Rochester | $81,700 | $93,900 |
| Balance of State | $77,400 | $89,000 |

Current income limits for repeat and refinance buyers:

| Property Location | Maximum |
|---|---|
| Minneapolis/Saint Paul (11-county area) | $124,000 |
| Rochester | $124,000 |
| Balance of State | $110,600 |

Purchase price limits:

| Property Location | Maximum |
|---|---|
| Minneapolis/Saint Paul (11-county area) | $307,900 |
| Balance of State | $255,500 |

## Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, we financed:

- 4,089 loans
- $599,372,332 total loan amount
- $146,582 average loan amount
- Median household income of borrowers was $51,159 or 66 percent of statewide median income
- 27 percent were households of color or Hispanic ethnicity

Our home mortgage programs are experiencing high production, which is heavily supported by downpayment and closing-cost loans. Eighty-eight percent of home mortgage borrowers use some type of downpayment and closing cost loan, which is comparable with other top-producing housing finance agencies nationally.

## Proposal for 2017

With the amount of funds requested to support downpayment and closing-cost loans, we estimate 2017 home mortgage production will be $600 million. This would be a similar level of production as we expect to achieve in 2016, which increased from an original budget of $510 million to $590 million. If production strengthens, we will need additional funds in 2017 or program changes for downpayment and closing-cost loans.

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Based on resources available for new activity in 2017, we expect to finance loans for 3,750 households. Reducing the homeownership disparity for households of color or Hispanic ethnicity with these resources will continue to be a priority in 2017.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | $600,000,000 |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$600,000,000** |
| **2016 Original Total** | **$510,000.000** |

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

# Mortgage Credit Certificates (MCCs)

The Internal Revenue Service permits state housing finance agencies to convert mortgage revenue bond (MRB) authority into Mortgage Credit Certificates (MCCs) for first-time homebuyers. MCCs make homeownership more affordable by allowing eligible homebuyers to claim a nonrefundable tax credit for a percentage of their mortgage interest up to $2,000 annually. Eligibility requirements for MRB programs, such as first-time homebuyer status, also apply to MCCs.

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Between November 2012 and January 2016 we converted a total of $277 million of unused bonding authority:

- $135 million in 2012,
- $92 million in December 2014, and
- $50 million in January 2016.

The total amount of bonding authority converted to approximately $69 million in MCC authority (with 25 percent rate for converting bonding authority into MCC authority).

The following table shows an example of how the tax credit works.

| | |
|---|---|
| Mortgage amount | $170,000 |
| Mortgage interest rate | 3.5% |
| Annual mortgage interest payment | $5,952 |
| Credit rate | 25% |
| Annual tax credit | $1,488 |

## Program Performance and Trends

MCCs support additional lending by the Agency and advance our business model. Ninety-seven percent of MCC borrowers have used our first mortgages to purchase their home.

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing allocated MCCs for:

- 272 borrowers
- Median household income of borrowers was $60,969 or 79 percent of statewide median income
- 16 percent were households of color or Hispanic ethnicity

## Proposal for 2017

After 2016, we expect to have approximately $5.7 million of MCC authority remaining, which we will use in 2017, allowing the program to run through the spring 2017.

We expect to assist approximately 134 homebuyers in 2017 under this program.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | $5,700,000 |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$5,700,000** |
| **2016 Original Total** | **$15,400,000** |

**Legal Authority:** Minn. Stat. §462A.05; IRC §143, Section 25

## Deferred Payment Loans

We offer two downpayment and closing-cost loans—Deferred Payment Loans and Monthly Payment Loans—that support homeowners receiving Start Up, Step Up, or MCC first mortgage loans. Historically, the percentage of our borrowers receiving one of the two types of downpayment and closing-cost loans has been significant, ranging from 60 percent to 90 percent of all borrowers.

The Deferred Payment Loan (DPL) provides an interest-free, deferred loan for downpayment and closing costs to income-eligible first-time homebuyers purchasing a home under the Start Up program. Borrowers that receive DPL lack the necessary funds for standard mortgage downpayment and closing costs. The maximum loan amount is $7,500. The program serves lower income households than the amortizing Monthly Payment Loan (MPL) and is funded through a combination of state appropriations and Pool 3 funds.

To ensure that funds support successful homeownership, DPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or $1,000 and have a credit score of at least 640. DPL also requires at least one borrower per household to complete homebuyer education.

Current income limits are adjusted by household size. Limits for households of one to three members are:

| Property Location | Maximum |
|---|---|
| Minneapolis/Saint Paul metro area (11-county) | $60,000 |
| Rochester | $60,000 |
| Balance of State | $55,000 |

Current purchase price limits are:

| Property Location | Maximum |
|---|---|
| Minneapolis/Saint Paul metro area (11-county) | $307,900 |
| Balance of State | $255.500 |

### Program Performance and Trends

The availability of DPL is a driver of overall home mortgage production, particularly among lower income and more targeted borrowers. In 2016, we increased the maximum DPL loan amounts slightly to reflect higher downpayment and closing costs resulting from higher home prices and sellers who are no longer willing to pay a sale's transaction costs. The changes went into effective on June 29, 2016.

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing financed:

- 2,023 loans
- $13,135,425 total loan amount
- $6,493 average loan
- Median household income of borrowers was $43,680 or 56 percent of statewide median income
- 33 percent were households of color or Hispanic ethnicity

## Proposal for 2017

The 2017 budget includes $15.5 million for DPL. If home mortgage demand remains very strong, additional resources will be needed to support DPL, or we will have to make program changes.

Based on resources available for new activity in 2017, we expect to support 2,067 households under this program.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $885,000 |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | $2,400,000 |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $12,215,000 |
| **2017 Total** | **$15,500,000** |
| **2016 Original Total** | **$11,000,000** |

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

## Monthly Payment Loans

Monthly Payment Loans (MPLs) are interest-bearing, amortizing loans that provide downpayment and closing-cost funds. MPLs support our home mortgage loan programs, including Start Up, Step Up, and the first mortgage loans originated under the Mortgage Credit Certificate program. Borrowers who qualify for MPLs receive up to 10,000. MPLs have a 10-year term with an interest rate equal to that of the first mortgage.

To ensure that funds support successful homeownership, MPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or $1,000 and have a credit score of at least 640. MPL also requires at least one borrower in each household receiving a Start Up loan to complete homebuyer education.

Current household income limits are:

| Property Location | Maximum Household Income | |
|---|---|---|
| | 1-2 person | 3 or more |
| Minneapolis/Saint Paul (11-county area) | $86,600 | $99,500 |
| Rochester | $81,700 | $93,900 |
| Balance of State | $77,400 | $89,000 |

Current purchase price limits are:

| Property Location | Maximum |
|---|---|
| Minneapolis/Saint Paul (11-county area) | $307,900 |
| Balance of State | $255,500 |

### Program Performance and Trends

Demand for this program has remained strong since its introduction in late 2012.

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 1,437 loans
- $10,463,950 total loan amount
- $7,282 average loan
- Median household income of borrowers was $66,537 or 86 percent of statewide median income
- 25 percent were households of color or Hispanic ethnicity

### Proposal for 2017

For 2017, we anticipate about one-third of general home mortgage production will involve MPL, which would require $11 million for MPL. MPL production is subject to overall home mortgage production trends, the interest rate environment, the overall percentage of our borrowers who need a downpayment and closing-cost loan, and program design changes. Given that MPL is the only downpayment and closing-cost loan available with all home mortgage options, the demand for MPL depends upon the demand for Start Up, Step Up, and MCC first mortgage loans. This budget request anticipates potential downpayment and closing-cost program changes if overall first mortgage demand continues to be high.

Based on resources available for new activity in 2017, we expect to fund loans for 1,222 households under this program.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $11,000,000 |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$11,000,000** |
| **2016 Original Total** | **$11,300,000** |

**Legal Authority:** Minn. Stat. §462A.05

## Habitat for Humanity Initiative

In 2016 and prior years, the Habitat for Humanity Initiative supported low-interest loans originated by Habitat for Humanity Minnesota affiliates for qualifying households under its Next 1,000 Homes Fund.

While income limits are less than or equal to 50 percent of the greater of state or area median income in the existing program, Habitat sets specific borrower income limits, which typically are lower than our limits. Habitat also establishes maximum loan amounts that are lower than the Agency's home mortgage loan program limits.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, under Habitat's Next 1,000 Homes, we funded:

- 29 loans
- $2,089,129 total loan amount
- $72,039 average Minnesota Housing funding per household
- Median household income of borrowers was $33,384 or 43 percent of statewide median income
- 78 percent were households of color or Hispanic ethnicity

### Proposal for 2017

In 2017, we plan to change our investment strategy. Existing investments will continue to support the Next 1,000 Homes Fund, which will just serve Greater Minnesota. For Twin Cities Habitat for Humanity, we plan to invest an estimated $10 million through 2020, with $2.5 million provided in 2017. These funds will help launch their mortgage capital acquisition strategy and create a $75 million lending pool, with a goal of serving 400 new homebuyers, largely reflective of Minnesota's increasingly diverse population.

Under this new initiative, the income limits will be 80 percent of the area median income.

Based on resources available for new activity in 2017, we expect our funds to support loans for approximately 31 households under this program.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $2,500,000 |
| Housing Affordability Fund (Pool 3) | $1,000,000 |
| **2017 Total** | **$2,500,000** |
| **2016 Original Total** | **$2,000,000** |

**Legal Authority:** Minn. Stat. §462A.21, Subd. 5; Minn. Stat. §462.33; Minn. Rules, Parts 4900.3600-3652; and Board adopted Investment Policy, which in relevant part is consistent with Minn. Stat. §11a.24

## Homeownership Education, Counseling & Training (HECAT)

Homeownership Education and Counseling (HECAT) supports pre-purchase homebuyer training, home equity conversion counseling, and post-purchase counseling. We and our funding partners (the Minnesota Homeownership Center, the Family Housing Fund, and the Greater Minnesota Housing Fund) accept funding proposals annually from administrators through a competitive Request for Proposals process.

### Program Performance and Trends

Of the households assisted in 2015, 50 percent participated in homebuyer education classroom courses, 22 percent received one-on-one pre-purchase counseling services, and 28 percent received foreclosure counseling. An additional 3,783 households participated in Framework, an online homebuyer education option. Thirty-six percent of these clients were in Greater Minnesota and 64 percent in the Twin Cities Metropolitan Area.

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For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 8,678 households (including NFMC foreclosure counseling). An additional 3,783 households participated online through Framework
- $2,007,397 funding amount
- $231 average Minnesota Housing assistance per household
- Median household income of participants was $35,780 or 46 percent of statewide median income
- 42 percent were households of color or Hispanic ethnicity

A review of mortgage delinquency and foreclosure in Minnesota shows that some troubled loans remain in the system; however, rates have declined from the highs of 2008-2010 and need for foreclosure counseling has continued to diminish.

### Proposal for 2017

We expect a state appropriation of $857,000. Also, historically the Greater Minnesota Housing Fund and the Homeownership Center have annually contributed $250,000 to the program and the Family Housing Fund has contributed $150,000.

Based on resources available for new activity in 2017, we expect to fund assistance for 13,810 households under HECAT (including online Framework training).

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $857,000 |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | $10,000 |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | $650,000 |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$1,517,000** |
| **2016 Original Total** | **$1,517,000** |

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

## National Foreclosure Mitigation Counseling (NFMC)

We have funded foreclosure prevention counseling with federal funds from the National Foreclosure Mitigation Counseling (NFMC) program. These funds are administered in conjunction with the HECAT program

### Program Performance and Trends

Program performance is included in HECAT performance results.

### Proposal for 2017

In the spring of 2016, we received $678,894 in NFMC funds (round 10), we committed these funds under the 2016 AHP and do not expect to additional funds in 2017

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $0 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$0** |
| **2016 Original Total** | **$0** |

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

## Enhanced Homeownership Capacity Initiative

Households of color or Hispanic ethnicity are an increasing share of the state's population, yet Minnesota's homeownership disparity (the homeownership rate differential between white/non-Hispanic households and households of color or Hispanic ethnicity) is among the highest in the nation. These households often struggle to access the mortgage market, and their homeownership rate declined between 2008 and 2012, with a modest improvement in subsequent years.

The Enhanced Homeownership Capacity Initiative, a pilot program, provides intensive financial education, comprehensive homebuyer/owner training, and case management services to prepare families for sustainable homeownership. It serves a range of households but has targeted efforts to reach households of color or Hispanic ethnicity to increase their probability of successful homeownership.

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The Minnesota Homeownership Center, with strong programming and financial support from us, has developed a statewide homeowner training infrastructure that will use new approaches to serving potential homeowners. They supplement traditional homeowner training with intensive financial education and case management services to enhance family stability and sustainable homeownership.

In the most recent round of funding, thirteen organizations will provide services – nine in the Twin Cities metro, three in Greater Minnesota, and one in both areas.

### Program Performance and Trends

This initiative supports new and expanded homeowner training efforts through existing organizations, which leverage funds from a number of sources.

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 548 loans
- $587,500 total grant amount
- $1,072 average Minnesota Housing funding per household
- Median household income of borrowers was $33,384 or 43 percent of statewide median income
- 92 percent were households of color or Hispanic ethnicity

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### Proposal for 2017

For 2017, we will allocate $1,250,000 for the pilot, including a $500,000 direct appropriation to one provider by the Legislature and $750,000 of Pool 3 funds that we will distribute through a competitive RFP.

Based on resources available for new activity in 2017, we anticipate serving approximately 833 households under this pilot program.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | $500,000 |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $750,000 |
| **2017 Total** | **$1,250,000** |
| **2016 Original Total** | **$750,000** |

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

## Home Improvement Loan Program

The Home Improvement Loan Program, including the Fix Up Fund and Community Fix Up Fund, provides fully-amortizing home improvement loans to low- and moderate-income homeowners to improve the livability and energy efficiency of their homes. It is a key tool for addressing the state's stock of aging housing.

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The program serves a broad range of incomes and promotes economic diversity in lending. With higher loan-to-value limits than traditional loan products and an unsecured loan option, borrowers are able to improve and preserve their homes when other financing options may be not available to them. This is an important product when home values in some markets are still recovering from the housing crisis, and traditional lender loan products are capped at an 80 percent loan-to-value ratio.

Current income limit: $99,500 for secured and unsecured loans (no limit for unsecured energy incentive and secured energy/accessibility loans).

Maximum loan amount: $50,000 for secured loans; $15,000 for unsecured loans and secured energy/accessibility loans.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014—September 30, 2015, Minnesota Housing financed:

- 811 loans
- $13,536,159 total loan amount
- $16,691 average loan
- Median household income of borrowers was $68,132 or 88 percent of statewide median income
- Nine percent were households of color or Hispanic ethnicity

Coming out of the recession, lending in this program initially increased with the stronger economy; however, over the last couple of years, we have seen a leveling or slight drop off. Lenders have told us that renewed home equity lines of credit and cash-out first mortgage refinances are pulling market share from fixed-term products.

### Proposal for 2017

With recent trends in home improvement lending, we are allocating $14 million for this program. Based on resources available for new activity in 2017, we expect to finance loans for 824 households.

We anticipate no major operational changes for the home improvement programs in 2017; however, staff will look to support our Olmstead initiative by developing and implementing an outreach plan to increase awareness of loan resources among disability service organizations and increase program usage by households with accessibility needs. We will also continue to promote Community Fix Up initiatives with an interest-rate write down that reach lower income households than those served under regular program options and continue to develop partnerships with several energy company consortiums to promote our loan products to utility customers and contractors.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $13,727,500 |
| Housing Affordability Fund (Pool 3) | $272,500 |
| **2017 Total** | **$14,000,000** |
| **2016 Original Total** | **$17,380,000** |

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

## Rehabilitation Loan Program (RLP)

The Rehabilitation Loan Program (RLP) provides deferred loan financing to low-income homeowners needing home rehabilitation to improve its safety, livability, or energy efficiency. The housing is rehabilitated to the greatest extent practicable to meet the rehabilitation standard adopted by the Agency in 2010. Homeowners who need emergency assistance or have an essential accessibility need are referred to the Emergency & Accessibility Loan (ELP) component of the program.

Local entities, such as community action agencies, administer RLP. The maximum loan term is 15 years for properties taxed as real property and 10 years for manufactured homes taxed as personal property and located in a manufactured home park. All loans are forgiven after the loan term if the borrower does not sell, transfer title, or cease to occupy the property during the loan term. Other borrower assets cannot exceed $25,000.

Current income limits are adjusted by household size, from $18,100 for a single person household to $25,800 for a four-person household.

Maximum loan amount: $15,000 for an emergency or accessibility loan and $27,000 for a rehabilitation loan.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 205 loans
- $4,580,118 total loan amount
- $22,342 average loan
- Median household income of borrowers was $14,195 or 18 percent of statewide median income
- 19 percent were households of color or Hispanic ethnicity

In the past year, staff has worked to 1) improve program delivery and the capacity of local administrators, 2) improve oversight of funds for eligible uses and cost control, and 3) refine the onsite monitoring process to identify and select administrators needing higher levels of technical assistance.

### Proposal for 2017

In 2017, we will continue to work with administrators to identify program changes that will improve client services and make administrator execution easier. Administrator capacity continues to be an issue, with thinly funded organizations, limited staff capacity to cover multiple program areas, and a recent trend toward administrator consolidation. This year, we will provide additional targeted technical assistance to administrators that “underserve” their market area, based on the number of eligible households compared with their origination volume, with a focus on outreach methods. We will also support our Olmstead initiative and increase awareness of Rehabilitation and Emergency products among households with a disabled family member and among service organizations.

Based on resources available for the program in 2017, we expect to fund rehabilitation loans for 314 households.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $2,772,000 |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | $1,000,000 |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $0 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $4,828,000 |
| **2017 Total** | **$8,600,000** |
| **2016 Original Total** | **$8,600,000** |
| **2016 Revised Total** | **$** |

**Legal Authority:** Minn. Stat. §462A.05, Subd. 14a; Minn. Rules, Parts 4900.0610-0700

## First Mortgage – Low and Moderate Income Rental (LMIR)

We have the ability to finance and insure amortizing first mortgages. Traditionally, we have made direct loans through our Low and Moderate Income Rental Program (LMIR) using either Pool 2 resources or proceeds from the issuance of tax-exempt bonds. Direct loans are now made under LMIR in combination with HUD's Risk Sharing Program.

The LMIR Program 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. We also finance construction (bridge) loans and streamlined refinance loans under this program. Financing is available to housing sponsors both through the Request for Proposals (RFP) process and on a year-round pipeline basis. To enhance LMIR loans, we may also offer a companion, low- or no-interest deferred loan under the Flexible Financing for Capital Cost (FFCC) program, resulting in a lower overall interest rate on a blended basis.

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Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; the balance of units may have rents at the Minnesota Housing determined "market rate".

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income; or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible with loan amounts less than $2 million on tax-exempt bond loans and $350,000 on all others.

For the past several years, the bond market has not produced attractive interest rates for long-term bonds; as a result, we have issued short-term tax-exempt bonds to finance LMIR construction (bridge) loans. Bridge loans may be paid off by permanent LMIR loans funded from Pool 2 resources, a structure that allows developments to qualify for four percent housing tax credits and realize the benefit of very low short-term interest rates while not being subject to interest rate risk on the permanent mortgages. This structure is subject to change as directed by our finance staff (as the bond market changes).

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing financed:

- Three LMIR loans for developments with 174 units
- $4,625,286 total loan amount
- $26,582 average assistance per unit
- Median household income of tenants was $22,440 or 29 percent of statewide median income
- 53 percent of households were of color or Hispanic ethnicity

## Proposal for 2017

To broaden the benefit and flexibility of our first mortgage programs, we have adopted new mortgage products including HUD MAP loans and a Streamline Refinance product, which rolled out this past year. For 2017, we will continue to explore and implement additional mortgage products, and we developing a year-round funding approach to enhance the marketing and benefit of our mortgage products. We expect to pair deferred funding sources (including FFCC, PARIF and possibly HOME) with amortizing mortgages to support this year-round approach.

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We are budgeting $25 million for LMIR permanent financing and $35 million for short-term bridge loans. We anticipate that roughly 70 percent of amortizing loan financing will be awarded through the RFP process and 30 percent will be awarded through year-round funding.

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Based on resources available for new activity in 2017, we expect to assist 729 units under permanent LMIR financing (excluding bridge loans).

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | $35,000,00 |
| Housing Investment Fund (Pool 2) | $25,000,00 |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$60,000,000** |
| **2016 Original Total** | **$70,000,000** |

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

## First Mortgage – Multifamily Accelerated Processing (MAP)

The HUD Multifamily Accelerated Processing (MAP) program provides mortgage insurance through HUD's Federal Housing Administration to facilitate new construction, rehabilitation, acquisition, and refinance of multifamily rental housing. MAP transactions are fully-insured, fully-amortizing loan products. Through a partnership with Dougherty Mortgage, we complete the loan underwriting and then assign HUD's commitment to a third party for rate lock, closing, funding, and servicing. These loans may be paired with our other loan programs.

Eligibility requirements: The development must meet the underwriting standards as prescribed by HUD, including loan-to-value requirements and debt service coverage ratio. The development team must also meet HUD requirements regarding experience and financial strength.

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There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible in amounts of less than $1 million.

### Program Performance and Trends

One MAP loan for a development with 37 units closed during the period of October 1, 2014 – September 30, 2015. In the current interest rate environment, MAP loan volume is expected to increase, both through the RFP and on a pipeline basis.

### Proposal for 2017

We expect $20 million to be available for MAP lending. We will review RFP applications to determine if they would be served better as HUD MAP loans or LMIR loans.

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Based on resources available for new activity in 2017, we expect to assist 583 units under MAP.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | $20,000,000 |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$20,000,000** |
| **2016 Original Total** | **$15,000,000** |

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

## Flexible Financing for Capital Costs (FFCC)

We provide Flexible Financing for Capital Costs (FFCC) deferred loans at low or no interest. FFCC is available only in conjunction with Agency-originated first mortgage loans for the refinance, acquisition, rehabilitation, or new construction/conversion of rental developments that house low- and moderate-income Minnesotans.

We allocate FFCC funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be unnecessarily delayed if required to wait for the next RFP.

Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; the balance of units may have rents at the Minnesota Housing determined "market rate".

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income; or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

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

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing financed:

- One FFCC loan for a development with 100 units
- $846,000 total loan amount
- $8,460 average FFCC assistance per unit

### Proposal for 2017

Because the need for FFCC is largely dependent on which develops ask for and receive a first mortgage from us and need gap financing, demand for FFCC is very uncertain. Thus, we are not allocating funds to FFCC at this time. As RFP selections are made, we will transfer funds from the new Multifamily Flexible Capital Account to FFCC. (The next program description outlines this new account.)

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Of the FFCC funds that will eventually be made available, we anticipate that approximately 75 percent of the funds will be awarded through the 2016 RFP and up to 25 percent will be awarded through year round pipeline.

Until we determine the amount of funds needed for FFCC, we cannot estimate the number of units that would be assisted.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | TBD |
| **2017 Total** | **TBD** |
| **2016 Original Total** | **$3,500,000** |

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

# Multifamily Flexible Capital Account

Our multifamily underwriting team has the difficult challenge of funding as many high-quality rental developments each year as possible with available funds and varying program restrictions. Matching the right funds to the right development to maximize the number of affordable housing opportunities is a complex process. This year, we are creating a Multifamily Flexible Capital Account using resources from our Housing Affordability Fund (Pool 3). This account will allow us to fill the last funding gaps in projects to maximize production. We will use this account to fund FFCC after we determine the amount that is needed and then use the remaining funds to fill other gaps.

## Program Performance and Trends

This will be a new account for 2017, from which resources will be transferred to regular programs as needed.

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**Deleted:** It will not directly support housing units or households.

## Proposal for 2017

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $4,500,000 |
| **2017 Total** | **$4,500,000** |
| **2016 Original Total** | **$0** |

# Low-Income Housing Tax Credits (LIHTC)

Low-Income Housing Tax Credits (LIHTCs) provide federal income tax credits to owners and investors in the construction or acquisition/substantial rehabilitation of eligible rental housing. The housing must meet income and rent restrictions for a minimum of 30 years. The U. S. Department of Treasury (IRS) allocates tax credits based upon state population and a per capita amount that increases each year with the cost of living. Syndication proceeds are the amounts of private equity invested in developments as a result of federal housing tax credits awarded and then sold to investors. The award of LIHTCs is a highly competitive process, with requests far exceeding available credits.

The Minnesota Legislature designated us as the primary allocating agency of LIHTC in Minnesota and qualified local cities and counties as suballocators.

We award tax credits in two rounds of a competitive allocation process held each year. Round 1 is held concurrent with our Request for Proposals, and a smaller Round 2 is traditionally held early in the calendar year. We establish a waiting list of unfunded or partially funded applications at the conclusion of Round 2.

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Section 42 of the Internal Revenue Code requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. Our Qualified Allocation Plan (QAP) combines state and federally legislated priorities with other priorities established by us based on input from the public, local municipalities, and federal agencies. The QAP sets forth selection criteria that are appropriate to local conditions and support our mission and strategic priorities.

## Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing financed or allocated:

- 1,408 LIHTC units
- $104,761,911 in syndication proceeds
- $74,405 average syndication amount per unit
- Median household income of tenants in LIHTC units financed by Minnesota Housing was $21,862 or 28 percent of statewide median income
- 42 percent were households of color or Hispanic ethnicity

## Proposal for 2017

Based on the available LIHTC credit ceiling, we expect to allocate tax credits to support 646 units in 2017.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $9,546,045 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$9,546,045** |
| **2016 Original Total** | **$9,308,770** |

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

## National Housing Trust Fund

The National Housing Trust Fund (NHTF) is a new affordable housing production program that will complement existing Federal, State, and local efforts to increase and preserve the supply of safe, affordable housing for extremely low-income households, including families experiencing homelessness. The Fund is capitalized through contributions from the government sponsored enterprises Fannie Mae and Freddie Mac and administered by U.S. Department of Housing and Urban Development.

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Current Income Restrictions: NHTF-assisted units must be occupied by households with incomes at or below 30% of AMI.

Current Rent Restrictions: Rents of an extremely low-income tenant shall not exceed the greater of 30 percent of the federal poverty line or 30 percent of area median income. HUD will publish the HTF rent limits on an annual basis.

### Program Performance and Trends

This is a new program in 2017.

### Proposal for 2017

Our program will provide financing for one to two developments that are:

- New construction,
- Acquisition with rehabilitation,
- Rehabilitation without acquisition, or
- Operating subsidies for one of the above developments that produces new units meeting the permanent supportive housing strategic priority (up to 30% of the grant)

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Based on the available resources, we expect to allocate tax credits to support 24 units in 2017.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $3,000,000 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| Regular | |
| Carry Forward (ELHIF only) | |
| **2017 Total** | **$3,000,000** |
| **2016 Original Total** | **$0** |

**Legal Authority:** Housing and Economic Recovery Act of 2008, Section 1131; 12 U.S.C 4501 et seq; 24 C.F.R Part 93.

## Housing Trust Fund (Capital from Housing Infrastructure Bonds)

Historically, funding for the Housing Trust Fund (HTF) has come from either state appropriations or bond proceeds. Capital assistance is in the form of deferred loans with no or low interest for the acquisition, construction, or rehabilitation of affordable permanent supportive housing. Funding priority is given to housing proposals that serve veterans and their families, households experiencing long-term homelessness, and households at risk of becoming homeless.

We allocate proceeds from Housing Infrastructure Bonds (HIB) through the Consolidated Request for Proposal (RFP) process under both Housing Trust Fund and Economic Development and Housing/Challenge (EDHC) rules. We use HIB resources administered through HTF to finance supportive housing and through EDHC to finance preservation. We typically split the bond proceeds between these two programs. If the bonds are issued as private activity bonds, applicants also may access 4 percent housing tax credits

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

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

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- One loan for a development with 20 units
- $3,000,000 total loan amount
- $150,000 average assistance per unit
- Median household income of tenants was $9,423 or 12 percent of statewide median income
- 50 percent of households were of color or Hispanic ethnicity

### Proposal for 2017

Due to the limited HIB balance that remains this year, we will likely fund no more than one development. Because supportive housing projects have fewer capital resource options than preservation, we expect to administer all HIB resources through the HTF program and none through EDHC. In addition, supportive housing projects, with fewer units, are less likely to support a bond/tax credit structure without HIB.

**Deleted:** allocate all HIB resources through the consolidated RFP, and not leave resources for pipeline applications

Based on resources available for new activity in 2017, we expect to fund no more than one project with about 24 units under this program.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | $3,000,000 |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| Regular | |
| Carry Forward (ELHIF only) | |
| **2017 Total** | **$3,000,000** |
| **2016 Original Total** | **$10,849,200** |

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

## Preservation Affordable Rental Investment Fund (PARIF)

PARIF provides deferred loans to fund the preservation of: 1) permanent affordable rental housing with project-based federal subsidies that are in jeopardy of being lost; and 2) existing at-risk supportive housing developments. Eligible activities under PARIF include rehabilitation, acquisition and rehabilitation, debt restructuring, and equity take-out.

We allocate PARIF funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: PARIF is subject to the federal guidelines for the units being preserved.

Maximum assistance amount: None

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- Two developments with 102 units
- $3,070,285 total loan amount
- $30,101 average PARIF assistance per unit
- Median household income of tenants was $14,316 or 19 percent of statewide median income
- 45 percent were households of color or Hispanic ethnicity

This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based federally assisted housing.

### Proposal for 2017

PARIF is available through the RFP process and on a pipeline basis. We anticipate that approximately 80 percent of the funds will be awarded through the 2016 RFP and up to 20 percent will be awarded through the year-round pipeline. Pipeline requests will be considered if a project faces one of the following risks which preclude it from applying through the RFP: 1) the proposal has existing funding commitments that cannot be extended and will be otherwise lost; 2) the proposal involves immediate emergency repairs threatening the health and safety of existing tenants; 3) the current owner delivered an opt-out notice and the federal subsidy would be lost without an incentive or transfer; or 4) the proposal documents a unique housing opportunity that would be lost and that advances our strategic priorities as outlined in the RFP Guide.

Based on resources available for new activity in 2017, we expect to fund 463 units.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | $4,218,000 |
| Revolving | |
| Repayments and Receipts | $1,000,000 |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $8,682,580 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$13,900,580** |
| **2016 Original Total** | **$9,492,171** |

**Legal Authority:** Minn. Stat. §462A.21, Subd. 8b and 14a; Minn. Stat. §462A.05, Subd. 3b; Laws of Minnesota 2009, Chap. 17, Art. 1, Sec. 6; Minn. Rules, Parts 4900.3500-3550, 2700-2707, 4900.0610-0700

# HOME

HOME provides deferred loans for new construction, rehabilitation or acquisition/rehabilitation of permanent affordable rental housing, including housing with state or federal project-based rental subsidies.

We allocate HOME funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: The U.S. Department of Housing and Urban Development (HUD) annually sets limits for the HOME program.

Rent limits: HUD annually sets limits for the HOME program.

Maximum assistance amount: HUD annually sets the maximum per-unit subsidy limits.

## Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- Three developments with 252 units
- $10,641,261 total loan amount
- $42,227 average HOME assistance per unit
- Median household income of tenants was $16,915 or 22 percent of statewide median income
- 25 percent were households of color or Hispanic ethnicity

This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based assisted housing.

## Proposal for 2017

In 2017, we will forward commit the 2017 HOME funds. This will better position us to meet federal commitment and expenditure deadlines. In 2016, we did not commit HOME funds until after receiving the federal appropriation, which created timing and logistical issues. In addition, for the first time in several years, we are likely to use HOME funds for new construction, which is appropriate given the low vacancy rates and need for additional affordable housing opportunities.

Based on resources available for new activity in 2017, we expect to fund 214 units.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $5,967,371 |
| Repayments/Program Income | $1,206,342 |
| Carry Forward of Unobligated Balances from Previous Plans | $4,344,453 |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$11,518,166** |
| **2016 Original Total** | **$814,938** |

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

## Preservation – Publicly Owned Housing Program (POHP)

Under the Publicly Owned Housing Program (POHP), we provide deferred, forgivable loans at no interest to eligible public housing authorities or housing and redevelopment authorities to preserve/rehabilitate properties that they own and operate under HUD's Public Housing program. Past legislation also has authorized the acquisition, construction, or rehabilitation of publicly-owned permanent supportive or transitional rental housing. Funds are from the proceeds of state General Obligation Bonds and can be used only for eligible capital costs of a non-recurring nature that add value or life to the buildings.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 3 loans for 456 units
- $1,694,510 total loan amount
- $3,716 average assistance per unit
- Median household income of tenants was $10,428 or 14 percent of statewide median
- 27 percent were households of color or Hispanic ethnicity

### Proposal for 2017

No new funding is available in 2017. The resources available in this AHP are unused funds from previous years, which we will likely use for funding modifications to existing awards.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | $1,687,858 |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$1,687,858** |
| **2016 Original Total** | **$1,300,378** |

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

## Rental Rehabilitation Deferred Loan Pilot Program (RRDL)

RRDL provides deferred loans at no interest to individuals, developers, nonprofits, units of government, and tribal housing corporations for the moderate rehabilitation of existing affordable rental housing throughout Greater Minnesota. The program was designed to serve owners of smaller federally assisted properties or naturally affordable properties that do not apply or would not be competitive in our regular Consolidated Request for Proposals process.

Program funds are available through a network of local administrators. For developments located in areas of the state that are not represented by a local program administrator, owners may apply directly to us for RRDL funds as a project-specific applicant.  Loan terms range from 10 to 30 years depending on the loan amount. Between 10 percent and 100 percent of an RRDL loan may be forgiven at maturity if all compliance requirements are met for the term of the loan.

Current tenant income limit: 80 percent of the greater of the statewide or area median income, not adjusted for family size.

Maximum loan amount: $35,000 per unit for 1-2 units or $25,000 per unit up to a maximum loan of $300,000.

### Program Performance and Trends

In 2015, we completed an evaluation of the first four years of this pilot. RRDL has been most successful in rehabilitating 20 to 36 unit properties; and 1 to 4 unit properties remain underrepresented in the current portfolio of RRDL assisted units. A survey of administrators and potential borrowers indicated that owners of small properties were interested in the program, but frequently unable to complete the required application and due diligence materials. We implemented the evaluation recommendation that loans to properties with one to four units be fully forgivable to encourage rehabilitation of properties of this size. We will also continue to market the program to owners and recruit additional administrators with the skills necessary to assist owners in preparing funding applications.

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 27 loans for developments with 387 units
- $4,421,250 total loan amount
- $11,424 average RRDL assistance per unit
- Median household income of tenants was $14,435 or 19 percent of statewide median income
- Eight percent were households of color or Hispanic ethnicity

### Proposal for 2017

We run the Request for Proposal (RFP) process for RRDL every other year.  We ran it in 2016 with $8.1 million, which left $954,606 for projects in 2017. In 2018, we will run the next RFP with any new biennial appropriations.

Based on resources available and current production trends, we expect to finance 76 units.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | $0 |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $954,606 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$954,606** |
| **2016 Original Total** | **$8,130,468** |

**Legal Authority:** Minn. Stat. §462A.05 sub.14 and §462A.33; Minn. Rules, Parts 4900.3600-3652

# Section 8 – Performance Based Contract Administration (PBCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the fair market rent of assisted units.

Under an agreement with HUD that has been extended several times, we administer existing Section 8 contracts for affordable rental units that were not part of our Section 8 Traditional Contract Administration (TCA) first mortgage portfolio. Our primary responsibilities under PBCA are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist in identifying and planning for the preservation needs of developments with Section 8 assistance.

## Program Performance and Trends

Our current agreement with HUD extends through December 31, 2017. We currently manage 408 PBCA contracts under this agreement. Since 2007, about 100 TCA contracts have transitioned to PBCA. PBCA revenue earned through administration of the contracts pays 100 percent of the cost of administering the program.

For the Program Assessment period of October 1, 2013 – September 30, 2014, Minnesota Housing reported:

- 21,422 household assisted
- $120,209,904 in Housing Assistance Payments
- $5,612 average assistance per household
- Median household income of tenants was $11,796 or 15 percent of statewide median income
- 36 percent were households of color or Hispanic ethnicity

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units than TCA units are located in the Twin Cities Metropolitan Area.

## Proposal for 2017

Funding levels will continue to change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because PBCA outlays are based in part on the number of assisted units in the portfolio, outlays will increase as the portfolio increases.

We expect to assist an estimated 21,420 units in 2017 under PBCA.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $135,000,000 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$135,000,000** |
| **2016 Original Total** | **$129,000,000** |

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

## Section 8 – Traditional Contract Administration (TCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the fair market rent of assisted units.

We provided permanent mortgage financing for more than 235 Section 8 Traditional Contract Administration (TCA) properties developed from 1975 to the mid-1980s. We currently manage 135 of these TCA contracts. Our primary responsibilities under Section 8 TCA are to perform asset management functions, management and occupancy reviews, process contract renewals and annual rent adjustments, process monthly payment vouchers, and respond to tenant concerns. These activities assist us in identifying and planning for the preservation needs of developments with Section 8 assistance.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, we reported:

- 8,948 household assisted
- $60,599,646 in Housing Assistance Payments
- $6,772 average assistance per household
- Median household income of tenants was $12,522 or 16 percent of statewide median income
- 27 percent were households of color or Hispanic ethnicity

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units than TCA units are located in the Twin Cities Metropolitan Area.

### Proposal for 2017

Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction.

We expect to assist an estimated 8,935 units in 2017 under TCA.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $52,000,000 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$52,000,000** |
| **2016 Original Total** | **$52,000,000** |

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

## Section 236

The U.S. Department of Housing and Urban Development (HUD) encouraged the development of affordable rental housing in the late 1960s and early 1970s through the Section 236 program. HUD subsidized the interest rate on mortgages to a rate of one percent to reduce rents. Section 236 was a predecessor to the Section 8 program.

### Program Performance and Trends

Under the Section 236 program, we currently pass through interest rate reduction payments to developments with affordable housing financed by us. Residents have household incomes at or below 80 percent of median income adjusted for family size.

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing provided interest rate reduction for Section 236 developments with 863 units.

### Proposal for 2017

**Deleted:** 6

The program is long standing and well established. The amount of funds in this program will continue to trend downward as most of the original mortgages mature by December 2016. We expect to provide interest rate reduction to an estimated 372 units in 2017 under this program.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $79,695 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$79,965** |
| **2016 Original Total** | **$322,117** |

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

## Housing Trust Fund (HTF)

Historically, funding for the HTF has come from state appropriations and been used to fund capital, rental assistance, and operating subsidy expenses. In recent years, we have used HTF appropriations primarily for rental assistance and some operating subsidies. HTF serves low-income families and individuals (including unaccompanied youth) who are near-homeless, homeless, or long-term homeless.

Current tenant income limit: 60 percent of the Minneapolis/Saint Paul Metropolitan Statistical Area median income (AMI), with priority for proposals at 30 percent of AMI and proposals to serve the long-term homeless.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing assisted:

- 1,840 households
- $9,929,713 assistance disbursed
- $7,152 average assistance per household
- Median household income of tenants was $9,126 or 12 percent of statewide median income
- 65 percent were households of color or Hispanic ethnicity

### Proposal for 2017

Besides the regular HTF contracts and pilot programs, 2017 will include an additional $500,000 for a pilot rental assistance program for families from emerging communities who are at risk of being homeless and who have been victims of gender-based violence, including, but not limited to, domestic violence, sexual assault, trafficking, international abusive marriage, or forced marriage.

We provide HTF rental assistance and operating subsidies under two-year contracts with local administrators, and 2017 is a contract year. Roughly half of the funds committed in 2017 will be used in 2018.

Based on resources available in 2017, we expect to provide rental assistance for an estimated 1,969 households under this program through the core contracts and the pilots and assist 1,486 units through operating subsidies.

**Deleted:** 2

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $22,942,000 |
| New Appropriations 2017 | $675,000 |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | $2,000,000 |
| Contributions from Other Organizations | $2,000,000 |
| Carry Forward of Unobligated Balances from Previous Plans | $5,715,578 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **Funding for New Contracts** | **$33,332,578** |
| **Adjustment to Spread Contracts Over Two Years** | **-$15,368,789** |
| **2017 Net Total** | **$17,963,789** |
| **2016 Original Net Total** | **$15,671,279** |

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

## Bridges

Bridges is a state-funded rental assistance program for people with a serious mental illness. The goal of Bridges is to assist individuals to live in integrated settings in their communities until a permanent housing subsidy is available. Bridges operates in selected counties throughout the state. Local housing organizations administer these grants, which provide temporary rental assistance and security deposits on behalf of participants. The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of this program.

Tenants are responsible for a portion of the rent, which generally is equal to 30 percent of their income. Participants are required to be on a waiting list or eligible for a permanent rent subsidy, such as a Section 8 Housing Choice Voucher.

Bridges is a major component of our contribution to achieving Minnesota's Olmstead Plan goals as well as a significant part of the state's Plan to Prevent and End Homelessness. In 2015, the program implemented priorities to target resources to these goals. Bridges' priorities for serving households are:

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

Current tenant income limit: 50 percent of area median income.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

- 750 households
- $2,974,330 assistance disbursed
- $5,832 average assistance per household
- Median household income of tenants was $9,768 or 13 percent of statewide median income
- 32 percent were households of color or Hispanic ethnicity

### Proposal for 2017

Bridges funds rent assistance under two-year contracts with local assistance administrators, and 2017 is a contract year. Roughly half of the funds committed in 2017 will be used in 2018.

Based on the resources available in 2017, we expect to assist an estimated 810 households.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $8,176,000 |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | $500,000 |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $342,799 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $453,000 |
| **Funding for New Contracts** | **$9,471,799** |
| **Adjustment to Spread Contracts Over Two Years** | **-$3,132,292** |
| **2017 Net Total** | **$6,339,508** |
| **2016 Original Net Total** | **$4,695,108** |

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

## Section 811 Supportive Housing Program

Section 811 is a federal program under which the U.S. Department of Housing and Urban Development (HUD) has provided funding to states for project-based rental assistance to create integrated, cost-effective supportive housing units for people with disabilities. The goals of the program are to:

- Increase housing opportunities for people with disabilities;
- Transition people with disabilities from institutions to community-based settings;
- Reduce public costs of homelessness and institutional care;
- Create a centralized outreach and referral system; and
- Develop new service linkages.

We implemented the program in partnership with the Minnesota Department of Human Services (DHS). DHS staff coordinates all outreach, screening, and referrals for 811 units and works with property owners to ensure support services are offered to tenants.

Eligible applicants for Minnesota's allocation of 811 funding include private and public owners of multifamily housing. The project-based rent assistance subsidy covers the difference between the tenant's payment and the approved gross rent.

Eligible tenants include extremely low-income households with one or more disabled members, who are either participating in the Minnesota Department of Human Services' Money Follows the Person demonstration program or are experiencing long-term homelessness.

The Section 811 program is a key tool for us to support the goals of the Olmstead Plan to provide integrated housing options for people with disabilities. It is a unique opportunity to expand supportive housing for people with disabilities through the leveraging of Medicaid resources for services in supportive housing.

The state will enter into contracts with selected owners for a minimum of 20 years, with initial funding for a period of five years. Funding beyond the first five years is subject to federal appropriations. A small portion of the grant is used to pay for administrative expenses.

### Program Performance and Trends

HUD initially awarded Minnesota $3 million for up to 85 units of project-based rental assistance. We have awarded all of this funding for 84 project-based rental assistance subsidies (one unit less than the original goal of 85 units). Lease up of 811 units began in early 2016 with 26 households in housing by the end of June 2016.

In 2015, we received a second round of funding for an additional 75 units, which will be awarded to existing or new properties through the RFP process as well as on an open pipeline basis. We selected three properties with 18 units for the 811 program in the 2015 Multifamily Consolidated RFP, and will offer the remaining 811 units in the 2016 and 2017 funding rounds.

## Proposal for 2017

The Section 811 funds spread over five years will support $1.2 million of annual activity. Because we are still in the ramp-up period, we expect to disburse about $500,000 in 2017 and support about 93 households.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $500,000 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| Regular | |
| Carry Forward (ELHIF only) | |
| **2017 Net Total** | **$500,000** |
| **2017 Original Net Total** | **$1,217,100** |

**Legal Authority:** Minn. Stat. §462A.05, Subd. 6, 11, and 12; Minn. Stat. §462A.06, Subd. 6

# Family Homeless Prevention and Assistance Program (FHPAP)

Under FHPAP, we assist families with children, unaccompanied youth, and single adults who are homeless or are at imminent risk of homelessness. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters, eliminating repeat episodes of homelessness, and assisting individuals and families experiencing homelessness to secure permanent affordable housing.

FHPAP assists extremely low-income people primarily through short-term rent assistance (limited to 24 months but typically less than three months), security deposits, utilities and transportation assistance, and case management services. FHPAP grants also encourage and support innovations at the county, region, or local level for a more seamless and comprehensive homelessness response system.

Grant funds are awarded through a competitive Request for Proposals process. In the seven-county Twin Cities Metropolitan Area, only counties are eligible to apply for funding. In Greater Minnesota, eligible applicants include counties, groups of contiguous counties acting together, or community-based nonprofit organizations.

## Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing reported:

- 8,652 households
- $7,426,556 assistance disbursed
- $838 per household average assistance amount
- Median household income was $11,160 or 14 percent of statewide median income
- 57 percent were households of color or Hispanic ethnicity

As of the end of 2015, 44 percent of funds allocated to providers were used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 48 percent of funds were used for support services; and eight percent of funds were used for program administration.

Available data, collected through Minnesota's Homeless Management Information System (HMIS), indicate that only six percent of assisted household returned to shelter within one year of exiting this program.

## Proposal for 2017

FHPAP funds activities under two-year contracts through local administrators, and 2017 is a contract year. Roughly half of the funds committed in 2017 will be used in 2018.

As of July 1, 2016, the state changed the statute to allow Tribal Nations to apply directly to us for funding.

The 2016 Legislature also awarded $250,000 for landlord risk mitigation funds, which will provide an insurance pool for damages or lost rent and encourage landlords to rent to tenants that they would otherwise not likely rent to, including those with a criminal records or who are homeless or living in a segregated setting, such as an institution or shelter. The funds will be issued through a request for proposal process. Existing FHPAP grantees will be eligible to apply.

Based on resources available in 2017, we expect to assist an estimated 7,203 households.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $17,038,000 |
| New Appropriations 2017 | $250,000 |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $0 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **Funding for New Contracts** | **$17,288,000** |
| **Adjustment to Spread Contracts Over Two Years** | **-$8,644,000** |
| **2017 Net Total** | **$8,644,000** |
| **2016 Original Net Total** | **$8,594,184** |

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

## Housing Opportunities for Persons with AIDS (HOPWA)

The federally funded Housing Opportunities for Persons with AIDS (HOPWA) program provides grants for housing assistance and services to address the housing needs of persons with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status, or related diseases and their families. The U.S. Department of Housing and Urban Development allocates HOPWA funds to local jurisdictions. The City of Minneapolis receives and administers a direct award for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. We receive a direct award for the portion of the state not covered by the City of Minneapolis grant and contract with the Minnesota AIDS Project to administer these funds.

Currently, HOPWA funds are used to fund short-term rent, mortgage, and utility assistance.

Current tenant income limit: 80 percent of area median income adjusted for family size.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing assisted households in 44 counties as follows:

- 156 households
- $139,252 assistance disbursed
- $893 average assistance per household
- Median household income was $17,137 or 22 percent of statewide median income
- 47 percent were households of color or Hispanic ethnicity

### Proposal for 2017

Based on resources available for new activity in 2017, we expect to assist an estimated 171 households.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | $153,742 |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$153,742** |
| **2016 Original Total** | **$147,997** |

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

## Asset Management

Asset Management funds can provide interest and non-interest bearing, amortizing and deferred loans to fund deferred maintenance, capital improvements, and operating subsidies, as well as rent subsidy grants, in order to stabilize assets in our amortizing loan portfolio.

In 2015, we expanded Asset Management to include assisting developments in our deferred loan portfolio that are being monitored as if they were amortizing loans. Other changes allow the program to support developments that need stabilization funding and allow properties to apply for assistance on a pipeline basis.

Asset Management funding provides for necessary repairs and maintenance to protect Agency assets and ensure that developments are decent, safe, and sanitary. Funds may be used to pay for costs if a property goes into default and eventually becomes Real Estate Owned (REO) by Minnesota Housing. Funds also may be used to stabilize troubled developments that, if they became REO, would cost us more in losses than the total cost of stabilizing them.

Resources are available on a pipeline basis when reserves are inadequate to fund needed capital improvements. Owners receiving funding under this program must agree to extend affordability restrictions for a minimum of ten years beyond the current commitment.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing provided asset management assistance for two developments with 116 units.

### Proposal for 2017

Multifamily staff will continue to focus on evaluating unmet needs within the portfolio as well as identifying new opportunities and processes for using and leveraging Asset Management funds. Staff have clarified eligible uses of funds and identified some of the most appropriate “triggers” to deploy these funds. Staff are creating more efficient processes for the use of funds and building a stronger internal alignment of asset management funds with other pipeline funding to better deploy funds in this next year.

In 2017, we will fund Asset Management loans to address portfolio needs with program funds from the Financing Adjustment Factor/Financing Adjustment (FA/FAF) pool, rather than Pool 3 resources. Based on resources available for new activity in 2017, we expect to assist an estimated 100 housing units.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | $2,000,000 |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$2,000,000** |
| **2016 Original Total** | **$3,444,176** |

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

## Economic Development and Housing/Challenge (EDHC) – Regular

Under the Economic Development and Housing/Challenge Program (EDHC), we provide grants or deferred loans for the purposes of construction, acquisition, rehabilitation, interest rate reduction, interim or permanent financing, refinancing, and gap funding. Funds are used to support economic development or job creation activities within an area by meeting locally identified housing needs for either renter or owner-occupied housing.

Our Multifamily and Single Family divisions allocate these resources to competitive proposals submitted through the Request for Proposals (RFP) process. Staff evaluates proposals according to EDHC selection standards and our strategic priorities. RFP funding for single family housing is available under the Community Homeownership Impact Fund. This fund is the umbrella program for EDHC and interim construction financing for homeownership activities.

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We make EDHC loans to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations, or owners of housing (including individuals) for both multifamily (minimum of four units) and single family projects. EDHC requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources.

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

Maximum loan amount: None beyond funding availability.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded:

Multifamily EDHC
- 15 loans to developments with 931 units
- $24,458,423 total loan amount
- $26,271 average EDHC assistance per unit
- Median household income of $18,740 or 24 percent of statewide median income
- 69 percent were households of color or Hispanic ethnicity

Single Family EDHC – Impact Fund
- 313 loans
- $6,597,387 total loan amount
- $21,490 average loan
- Median household income was $39,144 or 51 percent of statewide median income
- 53 percent were households of color or Hispanic ethnicity

### Proposal for 2017

With the expectation of high demand for EDHC resources and no new funds from Housing Infrastructure Bonds, we decided to forward commit $6 million in 2017, which will increase the available resources.

In the October 2016 Request for Proposals (RFP) process, we will allocate funds for Community Homeownership Impact Fund projects and to affordable rental housing through our RFPs, with any other remaining funds made available on a pipeline basis.

In addition to the regular EDHC appropriations, the 2016 Legislature made available $750,000 for a new Workforce and Affordable Homeownership Development program, which will operate under a separate RFP than the Impact Fund.

Based on resources available for new activity in 2017, we expect to fund an estimated 510 units.

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**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | $6,000,000 |
| New Appropriations 2017 | $13,675,000 |
| Revolving | |
| Repayments and Receipts | $1,000,000 |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $3,604,779 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$24,279,779** |
| **2016 Original Total** | **$19,575,000** |

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

## EDHC – Housing Infrastructure Bonds (HIBs)

We allocate Housing Infrastructure Bond (HIB) proceeds through the Request for Proposal (RFP) process under both Housing Trust Fund and EDHC rules.

HIB proceeds used under EDHC rules may fund deferred loans to single family and multifamily housing developments. If the bonds are issued as private activity bonds, applicants also may access four percent housing tax credits for rental housing development.

EDHC HIB funds may be used to:

- Preserve existing federally subsidized rental housing by funding acquisition, rehabilitation, and refinancing;
- Acquire land to be held in trust by community land trusts and used for affordable single family homeownership opportunities; and
- In certain circumstances, finance the costs of construction, acquisition, and rehabilitation of supportive housing for individuals and families who are without a permanent residence.

## Proposal for 2017

Based on the lack of HIB resources available for new activity in 2017, we do not expect to allocate HIB resources under EDHC.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | $0 |
| Carry Forward of Unobligated Balances from Previous Plans | $0 |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$0** |
| **2016 Original Total** | **$9,480,800** |

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

# EDHC – Community Owned Manufactured Home Parks

We are a participating lender investing in loans made by Resident Owned Capital, LLC (ROC-USA), a national nonprofit. ROC-USA lends to resident manufactured home cooperatives to enable them to purchase, own, and manage the parks that they occupy. ROC-USA acts as a lead lender and is responsible for loan servicing and loan origination and takes a lead role in due diligence review. In addition, ROC-USA contracts with Northcountry Cooperative Foundation (NCF), a local nonprofit, to engage cooperatives in development activities, such as organizing the cooperative entity and contracting for third party reports. NCF is retained after closing to provide ongoing technical assistance to the cooperative.

## Program Performance and Trends

ROC-USA and NCF are marketing this program. For the Program Assessment period of October 1, 2014 – September 30, 2015, we did not close any Community Owned Manufactured Home Park loans.

## Proposal for 2017

The Board has approved three transactions since 2010, one of which was restructured, resulting in the pay-off of our loan participation. While we are continuing to fund the program, we are examining other ways to serve this market.

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Based on resources available for this program in 2017, we estimate being able to fund up to 80 units.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $2,000,000 |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$2,000,000** |
| **2016 Original Total** | **$2,000,000** |

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

# Single Family Interim Lending

Single Family interim loans are used to acquire, rehabilitate, demolish, or construct owner-occupied housing under the Community Homeownership Impact Fund program. Interim loans are financed with Pool 2 funds and have a term of 20 months. Funds are awarded annually through the Single Family Request for Proposals process in accordance with our mission and priorities. While two-thirds of the units supported in the past year have been affordable to households with incomes at or below 80 percent of the area median income, the ongoing need for workforce housing may mean that a greater portion of units supported in the coming year will serve households with incomes between 80 percent and 115 percent of the area median income.

## Program Performance and Trends

Performance data on interim lending are reported under the Community Homeownership Impact Fund in the EDHC program. The Impact Fund is the umbrella program under which we deliver the Economic Development and Housing/Challenge Program and interim construction financing, primarily for single family owner-occupied housing.

## Proposal for 2017

It is difficult to project the demand for interim financing in any given annual funding round because of the flexible nature of the funding source, which allows for rehabilitation as well as new construction activity. The 2017 AHP allocation reflects a continued market interest in new construction.

Based on resources available for new activity in 2017, we anticipate making interim or construction loans to administrators for approximately 10 housing units.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $1,000,000 |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$1,000,000** |
| **2016 Original Total** | **$1,562,000** |

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

## Technical Assistance and Operating Support

The goal of Technical Assistance and Operating Support is to enhance the ability of housing and community development organizations to meet Minnesota's affordable housing needs. The program supports a wide range of activities, which includes finding for organizations that provide critical support services, Community Housing Development Organizations (CHDOs) in Greater Minnesota, special projects and research/development activities, the infrastructure of the state's homelessness prevention networks, and competitive one-time capacity building.

We have provided assistance to a variety of organizations for projects that have an important state or regional impact. Grants may be used for projects that are research-oriented, require external expertise, or develop/support infrastructure related to our strategic priorities.

### Program Performance and Trends

For the Program Assessment period of October 1, 2014 – September 30, 2015, Minnesota Housing funded $1,736,261 under this program. Past allocations have funded: 1) the Home Ownership Center's statewide counseling network, 2) the Wilder Statewide Survey of Homelessness, 3) the maintenance of HousingLink's affordable rental housing information system, 4) the state's Homeless Management Information System (HMIS), 5) regional Continuum of Care homelessness assistance planning, and 6) the evaluation of updated national Green Communities criteria.

### Proposal for 2017

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | $645,00 |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | $30,000 |
| Carry Forward of Unobligated Balances from Previous Plans | $0 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $1,980,000 |
| **2017 Total** | **$2,655,000** |
| **2016 Original Total** | **$2,377,522** |

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

## Strategic Priority Contingency Fund

During any given year, we anticipate that some programs are likely to need additional resources. To be nimbler and more responsive, we set aside contingency funds to meet unexpected needs.

### Proposal for 2017

For 2017, we are providing $1.5 million for the Strategic Priority Contingency Fund.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2017 | |
| New Appropriations 2016 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | $1,500,000 |
| **2017 Total** | **$1,500,000** |
| **2016 Original Total** | **$2,000,000** |

## Manufactured Home Relocation Trust Fund

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay $12 per licensed lot into a trust fund each year. The park owner is authorized to collect funds from each manufactured homeowner either monthly or in a lump sum that is paid to Minnesota Management and Budget for deposit into the trust fund. The fund is available to homeowners who must relocate because the park they occupy is being closed.

The statute sets out a process for determining the amount of money for which a homeowner is eligible. Only those homeowners who paid into the trust fund may receive payment. We make payments to homeowners, as directed by a neutral third party, for eligible relocation costs.

### Program Performance and Trends

State law suspends collection of the fee if the balance in the account is equal to or exceeds $1 million.

### Proposal for 2017

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $1,163,695 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$1,163,695** |
| **2016 Original Total** | **$1,196,644** |

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

# Organizational Investments / Loans

Organizational Investments and Loans assist non-profit organizations and local units of government in the preservation or development of affordable housing for low-and moderate-income households. The investments and loans provide lending capital to organizations for the purposes of: 1) foreclosure remediation, 2) strategic land acquisition, and 3) pre-development activities. Foreclosure remediation lending covers such costs as the acquisition, rehabilitation, and construction of a one to four-unit residential property that is vacant, abandoned, foreclosed or acquired through a short sale and sold to an income-eligible buyer. Predevelopment lending covers such costs as architect fees, attorney fees, option on land and building, and other costs associated with processing or preparations of a housing proposal.

The program is administered through local organizations. The Twin Cities Community Land Bank administers the foreclosure remediation lending and strategic land acquisition activities throughout the seven-county Twin Cities area. The Greater Metropolitan Housing Corporation and the Local Initiatives Support Corporation administer the predevelopment lending activities throughout the seven-county Twin Cities area, while the Local Initiatives Support Corporation of Duluth serves greater Minnesota. Administrators select and underwrite the individual loans with results reported to us.

Maximum loan amounts vary by administrator. Loans typically are for terms of one or two years at an interest rate set by us.

## Program Performance and Trends

The program, which generally achieves nearly a 1:1 match from our administrators, was established as a revolving loan program with repayments supporting new loan production. The program supports our interest in building the capacity of organizations as community development housing lenders.

## Proposal for 2017

For 2017, we will support the Twin Cities Community Land Bank with a new $10 investment/set of loans. The $20 million of existing loans that supported the Land Bank were recently paid off.

**Deleted:** **Capacity Building Revolving Loan Program**

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**Deleted:** a revolving loan fund delivered through administrators

**Deleted:** and the Family Housing Fund

**Deleted:** additional funding will not be provided under the program; however, the existing capacity building loans will continue to revolve, providing organizations with continued lending capital to support the preservation and production of additional affordable housing unit.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $10,000,000 |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$10,000,000** |
| **2016 Original Total** | **$0** |

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

# Naturally Occurring Affordable Housing Investment / Loan

Naturally Occurring Affordable Housing (NOAH) is typically older apartment buildings that have become stylistically dated, lack the amenities desired by higher-income tenants, and command lower rents without government subsidies. Low vacancy rates are driving-up rents, and this housing is disappearing as investors buy them, make modest upgrades, and convert to them to higher-rent housing.

The Greater Minnesota Housing Fund is creating a $25 million fund to take equity positions in 10 to 12 NOAH properties over a two-to-three year period. As property purchases occur, investors will provide capital on a proportional basis to their investment commitment.

The NOAH Fund will target properties across the seven-county metro that are at high-risk of being converted to higher-cost housing. Many properties of interest will likely be in Hennepin or Ramsey County and located in both urban and suburban communities. The properties will be in close proximity to schools, public transportation, public services, and employment centers.

All properties must accept Section-8 vouchers. Beyond compliance with Fair Housing law, the Fund will work proactively to require outreach to communities of color and renters who are least likely to apply. However, to attract private capital into the Fund, there will likely be fewer constraints on owner-operators and properties than a typical Minnesota Housing program.

## Program Performance and Trends

This is a new investment / loan, and there are no performance data or trends to report.

## Proposal for 2017

We are evaluating a potential $10 million investment through the Greater Minnesota Housing Fund (GMHF) for the NOAH Fund. Our investment would leverage an additional $15 million to $20 million of private capital into the Fund and $80 million to $100 million of private debt capital at the property level, which will preserve the affordability of 1,000 units of multifamily rental housing for another 15 (or more) years. Because the timing of the financing and transactions is a little uncertain, we not projecting at this time the number of assisted units for 2017.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | $10,000,000 |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$10,000,000** |
| **2016 Original Total** | **$0** |

**Legal Authority:** Minn. Stat. §462.33; Minn. Rules, Parts 4900.3600-3652; and Board adopted Investment Policy, which in relevant part is consistent with Minn. Stat. §11a.24

## Flood Disaster

Disaster response programs provide funding for the repair or replacement of renter or owner-occupied housing damaged by natural disasters such as flood or tornado. We distribute these funds through the Quick Start Disaster Recovery program for single family properties and also assist in repairing damaged rental buildings, providing relocation services to renters displaced or homeless due to disasters, building organizational capacity to respond to disasters, and covering administrative costs related to disaster outreach.

Funds are typically delivered through administrators under contract to deliver ongoing Agency programs for the areas impacted by a disaster. These include administrators for the Single Family Rehabilitation Loan Program, the Multifamily Rental Rehabilitation Deferred Loan Program (RRDL), and the Family Homeless Prevention and Assistance Program (FHPAP).

Quick Start provides homeowners and smaller rental property owners with deferred loans at no interest for repair costs that are not covered by federal assistance or insurance proceeds. The loan is forgiven if the homeowner remains in the property for 10 years, or for rental properties, if property owners keep rents affordable for 10 years. There are no income limits under Quick Start.
`

### Program Performance and Trends

Typically, activities have been funded by special appropriations from the Minnesota Legislature following a federal disaster declaration and determination of the level of available federal funding from the Federal Emergency Management Agency and the Small Business Administration. State appropriations have ranged from $1,000,000 for the May 2011 Minneapolis tornado to $12,720,000 for the August 2012 flooding in northeast Minnesota. Over the past six years, Minnesota has seen significant disasters that have required activation of Quick Start and other Agency disaster assistance approximately every 14 months.

For the program assessment period October 1, 2014 – September 30, 2015, Minnesota Housing provided funding for:

- 33 units
- $360,900 total loan amount
- $10,936 average per unit
- Median household income was $60,477 or 78 percent of statewide median income
- Six percent were households of color or Hispanic ethnicity

### Proposal for 2017

Typically, the Minnesota Legislature appropriates funds following the declaration of a disaster. Thus, we have not budgeted funds for this program.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | $0 |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| Regular | |
| Carry Forward (ELHIF only) | |
| **2017 Total** | **$0** |
| **2016 Original Total** | **$0** |

**Legal Authority:** Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652 and Minn. Stat. §12A.09

## Disaster Relief Contingency Fund

The Minnesota Legislature established this fund in 2001 as the account into which we would deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas covered by a presidential declaration of disaster. Funding also may be used for capacity building grants for disaster response and flood insurance payments.

The terms and conditions under which the funds are made available are at the sole discretion of Minnesota Housing.

### Program Performance and Trends

Eligible uses of funds have included writing down the interest rate on Home Improvement Loans and activating the Quick Start Disaster Recovery program in 32 federally declared flood-damaged counties and two tribal communities.

### Proposal for 2017

The resources in the table below reflect the funds currently available in the fund.

**Program Funding by Source**

| Source | Amount |
|---|---|
| Federal Funds | |
| New Appropriations | |
| Repayments/Program Income | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| State Appropriations | |
| New Appropriations 2018 | |
| New Appropriations 2017 | |
| Revolving | |
| Repayments and Receipts | |
| Unused Funds from Previous Contracts | |
| Contributions from Other Organizations | |
| Carry Forward of Unobligated Balances from Previous Plans | $1,925,934 |
| State GO & Infrastructure Bond Proceeds | |
| New Funding | |
| Carry Forward of Unobligated Balances from Previous Plans | |
| Agency Bond Proceeds & Other Mortgage Capital | |
| Housing Investment Fund (Pool 2) | |
| Housing Affordability Fund (Pool 3) | |
| **2017 Total** | **$1,925,934** |
| **2016 Original Total** | **$1,756,997** |

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

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Minnesota Housing Finance Agency

**Board Agenda Item:** 8.A
**Date: 9/22/2016**

**Item:** 2016 Cost Containment Report

**Staff Contact(s):**
John Patterson, 651.296.3762, john.patterson@state.mn.us

**Request Type:**

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

**Summary of Request:**
We are providing our 2016 Cost Containment Report for your review and discussion. Last year, we started reporting back to the Board on our cost containment strategies and results. With the need for affordable housing increasing and limited resources available to meet the need, cost containment is an Agency priority.

We provide this report in September of each year because it is right before you review and approve our funding recommendations through the Consolidated Request for Proposals. As you review those recommendations, this report provides valuable context.

**Fiscal Impact:**
None.

**Meeting Agency Priorities:**
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**
- 2016 Cost Containment Report

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Planning, Research & Evaluation

# 2016 Cost Containment Report

**9/15/2016**

Minnesota Housing Finance Agency

# OVERVIEW AND CONTEXT

Containing the cost of developing housing is a critical issue in Minnesota. In 2014, nearly 600,000 Minnesota households were cost burdened by spending more than 30 percent of their income on housing. Since 2000, this number has increased 69 percent because median household incomes have declined by 8.1 percent (after adjusting for inflation) and median housing costs have increased by 5.6 percent.[1] If we are to address the growing need for affordable housing, we must build and preserve as many affordable units as possible with the limited resources available, which requires us to be cost conscious. However, cost containment requires tradeoffs and a balanced approach.

- Using lower quality materials and less efficient systems will reduce upfront costs, but they can also increase ongoing maintenance, repair, and utility costs, which may not be cost-effective in the long run.

- Using lower quality materials and more basic designs for a building's exterior will also reduce costs, but they will also make it more challenging to fit affordable housing in the surrounding neighborhood, particularly higher-incomes communities, which can lead to community opposition and increase costs related to delays, re-design, and projects not moving forward.

- Siting developments in less desirable locations can save money, but it can also reduce the tenants' access to opportunity, including jobs, services, amenities, safe neighborhoods, public transportation, good schools, and other benefits.

We based our 2016-19 Strategic Plan on the principle that housing is the foundation for success, providing individuals, families and communities the opportunity to thrive. To achieve this outcome for as many lower-income households as possible, we need to finance high-quality, durable, location-efficient housing that is built at the lowest possible cost. We are balancing the goal of cost containment with other policy objectives.

Overall, as the following assessment shows, we have been effective at containing costs over the last decade – maintaining relatively consistent total development costs (TDC) while pursuing other policy objectives that tend to increase costs, including supportive housing for people experiencing long-term homelessness, energy-efficient and healthy homes, and location efficiency. Nevertheless, we are under constant pressure to do more with less and will continue to identify and pursue additional strategies to contain and reduce costs.

This report is broken into two sections – the first addresses multifamily costs, and the second addresses single family costs.

[1] Minnesota Housing analysis of data from the U.S. Census Bureau's *American Community Survey*, 2000 and 2014.

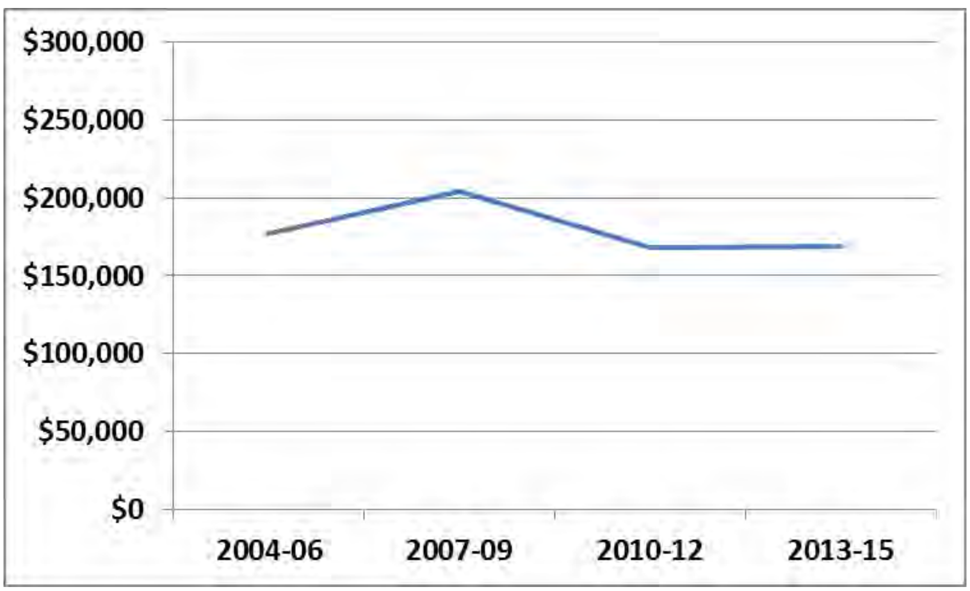
# MULTIFAMILY COSTS

In a typical year, we distribute over $100 million for multifamily development. We must ensure that these funds are efficiently and effectively used to address the growing need for affordable housing. This section of the report shows how we have taken steps to maximize production by containing development costs. The first part of the section provides an overview of our results, and the second part outlines our strategies for achieving those results and improving performance.

## Overview of Multifamily Costs

Overall, the average TDC per unit has remained at or below $200,000 for the last decade, after controlling for inflation in residential construction (which accounts for changes in material and wage costs over time). The data in Figure 1 applies to all types of developments, including new construction, rehabilitation, metro area, Greater Minnesota, tax credit, and non-tax credit. The trend line is influenced not only by the underlying cost trends but also by the mix of projects in a given year.[2] For example, a larger share of resources going to new construction developments with tax credits in the metro area will increase average costs, while a larger share going to rehabilitation developments without tax credits in Greater Minnesota will decrease average costs.

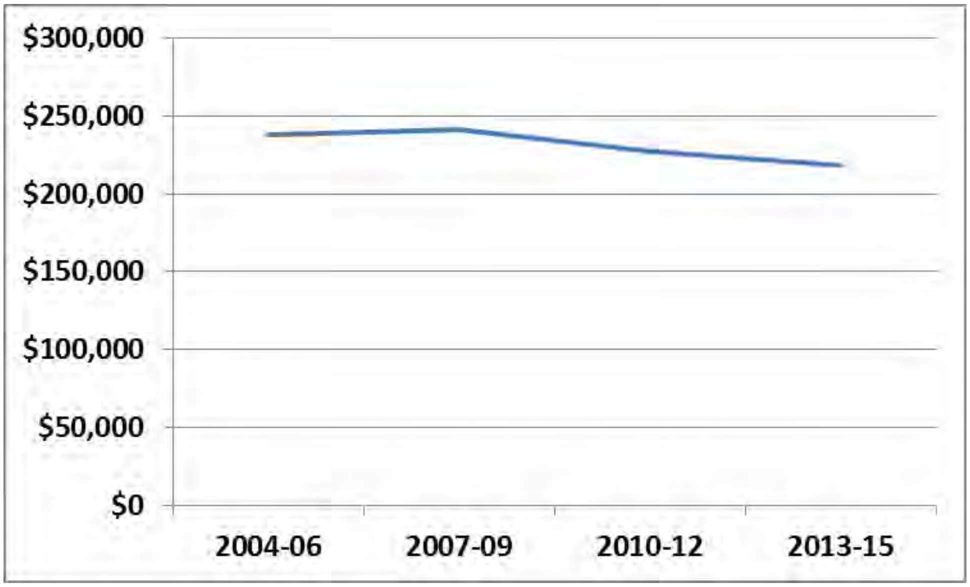
**Figure 1: Average TDC per Unit 2004 to 2015 – All Types of Developments (Adjusted for Construction Inflation, 2016 Dollars)**




[2] To increase the comparability of the data, we excluded developments with a TDC per unit that were less than $40,000, which took out rehabilitation projects with a more limited scope of work and added consistency to the level of rehabilitation being assessed. We also excluded developments with an overall acquisition cost of less than $10,000, which excludes projects with no acquisition or heavily subsidized acquisition.

To control for the mix of projects in the trend line, Figure 2 shows average TDC per unit just for new construction projects with tax credits in the Metro area. Again, average costs are relatively constant, but at a slightly higher $220,000 to $240,000 level. The relatively consistent or contained cost is the key finding.

**Figure 2: TDC per Unit 2003 to 2014 – New Construction with Tax Credits in the Metro Area (Adjusted for Construction Inflation, 2015 Dollars)**




Most importantly, we have contained costs while taking on policy initiatives that tend to increase costs.

- In 2003, we added a selection and funding priority for supportive housing for people experiencing long-term homelessness, which is generally a more costly type of development.

- In 2007, we added our Green Communities Overlay, which requires our developments to have energy-efficient and healthy-home features.

- In the last couple of years, we strengthened our location efficiency priority by making it more geographically precise and increasing the points it receives in the selection process. Housing that is in a walkable neighborhood and near transit, jobs, and other amenities can be more expensive.

While we added or enhanced these policy priorities, we also added cost containment provisions.

- In 2006, we first developed and used our predictive cost model, which compares a development's proposed costs with the costs that we would expect for that development based on the Agency's experience with similar projects and industry-wide standards. This process flags high cost developments and helps maintain costs at a reasonable level.

- With the Qualified Allocation Plan for the 2014 Low-Income Housing Tax Credits (LIHTC), we added a selection criterion that gives preference to the 50 percent of tax credit applications with the lowest TDC per unit.

- In 2014, we also launched the Minnesota Challenge to Lower the Cost of Affordable Housing, which was initiated as an idea competition to identify and address system-level factors (such as land use policies or design standards) that increase costs for all developments. Since this initial competition, we have carried out several activities to address these systemic-cost drivers.

More information on these initiatives is provided in the report's next section.

To effectively contain costs, we must understand the factors that are driving costs. Table 1 provides a break out of costs by project type, location and cost component.

- As discussed previously, new construction with tax credits in the Twin Cities metro area is the most expensive type of project, while rehabilitation without tax credits in Greater Minnesota is the least expensive.

- Not surprisingly, construction accounts for the clear majority of costs in new construction projects, while construction and acquisition costs are both key cost drivers of rehabilitation projects. Addressing these costs will have the largest impact in reducing or containing TDCs.

- While soft costs account for a smaller share of TDC (15 percent to 25 percent), they should be a key focus of cost containment strategies. Reducing construction costs can affect the quality, durability, and energy efficiency of the housing; and reducing acquisition costs can affect location efficiency and desirability. While soft costs are a necessary component of a housing development, eliminating inefficiencies in these costs will not affect the quality of the housing.

- Low-Income Housing Tax Credits (LIHTC) appear to add four to eight percentage points to the share of TDC attributable to soft costs, which is not surprising given the added complexity and cost of putting together and financing a tax credit deal. For developments without tax credits, soft costs account for 15 percent to 18 percent of TDC. That percentage jumps to 21 percent to 25 percent for developments with tax credits.

**Table 1: Share of TDC by Project Type, Location & Cost Component**
**Developments Completed between 2004 and 2015**
**(Adjusted for Construction Inflation, 2016 Dollars)**

| | | | | Share of TDC | | |
|---|---|---|---|---|---|---|
| | | | Avg. TDC per Unit | Construc-tion | Acquisi-tion | Soft Costs |
| New Con | LIHTC | Metro | $233,601 | 67% | 8% | 25% |
| New Con | No-LIHTC | Metro | $183,026 | 72% | 11% | 18% |
| New Con | LITHC | Grtr MN | $190,774 | 72% | 6% | 23% |
| New Con | No-LIHTC | Grtr MN | $172,017 | 76% | 7% | 17% |
| Rehab | LIHTC | Metro | $176,560 | 38% | 39% | 23% |
| Rehab | No-LIHTC | Metro | $120,448 | 45% | 40% | 15% |
| Rehab | LITHC | Grtr MN | $108,456 | 39% | 40% | 21% |
| Rehab | No-LIHTC | Grtr MN | $93,979 | 42% | 41% | 17% |

Over time, each of the three cost components have accounted for a consistent share of TDC, indicating that we are containing each cost component, not just overall costs. See Table 2.

**Table 2: New Construction with Tax Credits in the Metro Area –**
**Cost Component Share of TDC 2004 to 2015**

| | Construc-tion | Acquisi-tion | Soft Costs |
|---|---|---|---|
| 2004-06 | 68% | 7% | 25% |
| 2007-09 | 66% | 8% | 25% |
| 2010-12 | 65% | 8% | 26% |
| 2013-15 | 69% | 7% | 24% |
| 2004-15 | 67% | 8% | 25% |

## Strategies for Containing and Reducing Multifamily Costs

As mentioned earlier, we have taken a three pronged approach to containing costs.

1. Assess Cost Reasonableness Using a Predictive Cost Model

2. Incent Cost Containment and Reductions in the Selection Projects for Low-Income Housing Tax Credits

3. Address Systemic Cost Drivers

### *Strategy 1: Assess Cost Reasonableness Using a Predictive Cost Model*

We have developed a cost model that predicts a development's TDC per unit based on its characteristics. To develop the parameters for the model, we run a linear regression analysis on the inflation-adjusted costs and characteristics of the developments that the Agency financed between 2003 and 2015. The analysis uses the historical data to assess the effect that each of the following factors simultaneously has on TDC per unit:

- Activity Type:
  - New Construction
  - Extensive Rehabilitation[3]
  - More Limited Rehabilitation
  - Combination of New Construction and Rehabilitation
  - Conversion/Adaptive-Reuse
- Building Type:
  - Walkup
  - Elevator
  - Townhome
  - Single Family Home/Duplex
  - Other
- Unit Size – based on average number of bedrooms per unit in the development
- Gross Square Footage
- Amount of Non-Residential Space
- Location:
  - Minneapolis or Saint Paul
  - Suburbs in Twin Cities Seven-County Metro Area
  - Greater Minnesota – Large City[4]
  - Greater Minnesota – Regional Job Center[5]
  - Greater Minnesota - Rural
- Year Built
- Garage Type:
  - None
  - Above ground
  - Underground
- Acquisition:
  - Land

[3] This involves more extensive work on the interior, exterior, electrical, and mechanical systems of a property. "Extensive" versus "more limited" is determined by staff using internal definitions.

[4] The large cities are Duluth, Rochester, St. Cloud, Moorhead, and Mankato; and include a five-mile commute shed around the cities.

[5] There are 51 regional job centers, which are the top 15 percent of cities and townships in number of jobs. They include: Albert Lea, Albertville, Alexandria, Austin, Baxter, Bemidji, Brainerd, Buffalo, Cambridge, Cloquet, Cold Spring, Crookston, Detroit Lakes, Elk River, Fairmont, Faribault, Fergus Falls, Goodview, Grand Rapids, Hibbing, Hutchinson, International Falls, La Prairie, Little Falls, Marshall, Montevideo, Monticello, Morris, North Mankato, Northfield, Onamia, Owatonna, Park Rapids, Perham, Pipestone, Red Wing, Roseau, Saint Michael, Saint Peter, Sartell, Sauk Rapids, Thief Rivers Falls, Virginia, Waite Park, Waseca, Willmar, Windom, Worthington, and Wyoming. These areas also include a five-mile commute shed around the cities.

    - Structure
    - None
- Financing:
    - Tax Credits
    - Number of Funding Sources
- Special Costs:
    - Historic Preservation
    - Environmental Abatement
    - Supportive Housing

Using those same factors for a proposed development and the model's cost parameters, the model provides a predicted cost for that development. The model is also benchmarked against industry-wide cost data provided by RSMeans to ensure that our costs are in line with the industry.[6]

Overall, the model has worked very well for us. It explains a sizable portion (63 percent to 78 percent) of the variation in the costs for developments that we financed between 2003 and 2015, which is a statistically robust result. In addition, over the last ten years, it has proven very effective at objectively and systematically flagging developments with high costs. Each year, we revise and enhance the model based on the previous year's results and staff feedback.

Over time, we have tested models that predict costs on a per-unit and a per-square-foot basis. Based on our testing, the per-unit models have explained a larger share of the variation. We believe that this has occurred for two reasons. First, some costs are clearly tied to the unit and do not increase with the size of the units. For example, apartments regardless of unit size have one kitchen (unless single-room-occupancy). Second, and most importantly, the per-unit model that we use includes a cost factor that accounts for unit size. Developments with larger units and more bedrooms have higher predicted costs.

Under the policies of Minnesota Housing's Board, when staff recommend to the Board developments for selection and funding, they must identify the developments that have a proposed cost that is more than 25 percent higher than the predicted cost. If staff does recommend a development with costs above this range, they must also explain why the proposed cost is reasonable even though it is more than 25 percent greater than the predicted cost. There are a wide range of reasons why the costs could be reasonable. For example, a housing development and site may be critical to meeting a local housing need, but the site requires an unusually large amount of environmental remediation.

The professional judgement and expertise of our underwriting and architectural staff also play a critical role in the assessment of cost reasonableness. Even if a project has costs that are within the 25 percent threshold, staff will still question costs if they seem high given the context of the development. Our staff

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[6] RSMeans, *Building Construction Cost Data, 73rd Annual Addition, 2015*. According to RSMeans, construction costs for a 21,000 square-foot walkup apartment with 19 units in Minneapolis are $117,743 per unit (excluding land acquisition and soft costs). Our model initially predicts $120,697 per unit for construction costs for this development, or 2.4 percent higher. As a result, when providing a final predicted cost, our model lowers the initial prediction for construction costs by 2.4 percent to bring it in line with the RSMeans data.

has extensive experience reviewing funding applications and development costs. Each year, they typically evaluate 75 or more applications.

### *Strategy 2: Incent Cost Containment and Reductions in the Selection of Projects for Low-Income Housing Tax Credits*

Starting with our Qualified Allocation Plan (QAP) for the 2014 Low-Income Housing Tax Credits, we added a cost criterion for selecting developments to receive the credits. Under the 2014 through 2017 QAPs, the 50 percent of tax credit applications with the lowest TDC per unit are eligible to receive four points in the selection process.[7] We control for activity-type and location cost differences by dividing the applications into four groups.

1. New Construction in the Twin Cities metro area
2. New Construction in Greater Minnesota
3. Rehabilitation in the Twin Cities metro area
4. Rehabilitation in Greater Minnesota

Within each of the four groups, the applications with the lowest costs are eligible for the points. As a result, projects are only competing with similar projects for the points. When comparing costs and awarding points, we also adjust costs to account for unit size differences. Projects predominantly with smaller units (efficiencies and one bedroom) have their costs adjusted upward when making comparisons; and projects predominantly with large units (three or more bedrooms) have their costs adjusted downward.[8]

We added the new criterion to encourage cost reductions, not just cost reasonableness. With cost reasonableness and the predictive cost model, developers only have the incentive to propose costs that are in line with previous projects that we have funded. With the new scoring criterion, they now have the incentive to identify costs that may not be necessary, and reduce their costs in the hope of being in the 50 percent of developments with the lowest costs. Because the competition is "blind" (developers do not know the costs of the competing applications and how their development will rank on cost), developers have an incentive to reduce their costs as far as prudently possible.

We do not want the competition to become a "race to the bottom," with developers sacrificing quality and other policy objectives in the name of cost reduction. Thus, we very strategically chose to award four points to projects that meet this criterion.

Table 3 provides the maximum points awarded under each selection criteria for the 2017 QAP.

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[7] The criterion only applies to applications requesting nine percent credits. It does not apply to applications requesting four percent credits with tax-exempt bonds. Receiving four percent credits is a non-competitive process, where projects only need to meet a minimal threshold. The costs of developments seeking four percent credits are assessed using the predictive cost model.

[8] To be classified as a development with small units, 75 percent or more of the units have to be efficiencies or have one bedroom. To be classified as a development with large units, 50 percent or more of the units have to have three or more bedrooms.

- Four points is meaningful in the selection process and should influence the decisions of developers. In many years, there is only a one point difference between the last project selected for credits and the first one not selected. There are often several projects within four points of the selection threshold. For example, with the October 2015 selections, 17 of the 49 tax credit applications scored within this range.

- Four points is less than the points awarded for workforce housing, location efficiency, economic integration, and homelessness. Developers do not have an incentive to sacrifice those other funding priorities to achieve cost containment.

- Finally, developers cannot sacrifice quality and energy efficiency because all developments must meet our design and green standards.

**Table 3: Tax Credit Selection Points, 2017 QAP**

| Criterion | Points |
|---|---|
| Supportive Housing for Homeless | 15 with 100 bonus |
| Preservation | 30 |
| Unacceptable Practices | -25 |
| Rental Assistance | 21 |
| Lowest Income / Rent Reduction | 16 |
| Financial Readiness to Proceed | 14 |
| Federal/Local/Other Contributions | 10 |
| Household Targeting | 10 |
| Economic Integration | 9 |
| Location Efficiency | 9 |

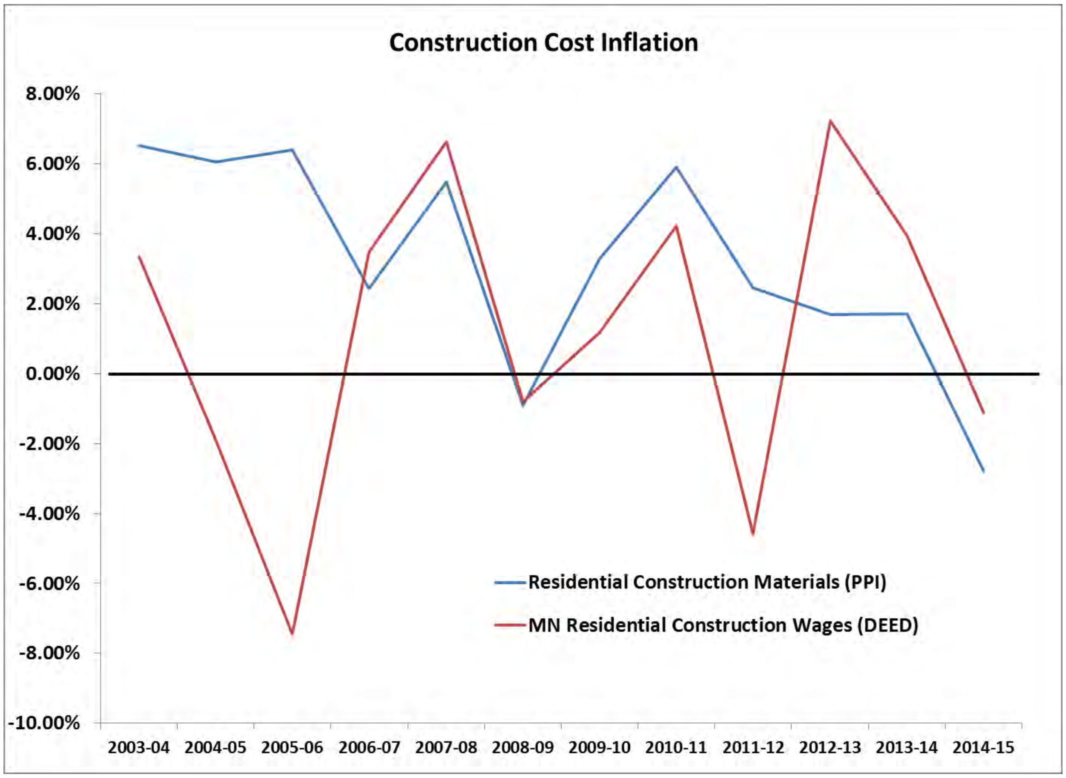
| Criterion | Points |
|---|---|
| Rural/Tribal | 7 |
| Intermediary (Soft) Costs | 6 |
| Workforce Housing Community | 5 |
| Universal Design | 3 |
| **Cost Containment** | **4** |
| Community Recovery | 3 |
| High Speed Internet Access | 1 |
| Smoke Free Building | 1 |
| QCT / Community Revitalization | 1 |
| Eventual Tenant Ownership | 1 |

We have limited this selection priority to just developments applying for nine percent tax credits for two reasons. First, tax credit developments generally have higher costs and containment is a larger issue. Second, the level of work done on tax credit developments, particularly rehabilitation, is more consistent across projects and allows for more appropriate and equivalent cost comparisons. The level of rehabilitation, particularly for non-tax credit developments, can vary a lot, and we do not want to incent developers to just pick the projects with minimal rehabilitation needs. Even though cost containment points are awarded only in the competition for nine percent tax credits, we measure all projects requesting agency funding in comparison to the predictive cost model.

Because the scoring criterion is relatively new, we continue to monitor it closely for unintended consequences by assessing the type, size, nature, location, and scope of developments scoring and not-scoring well on it to make sure that the selected projects meet our overall strategic and funding priorities.

One of the challenges for developers created by the cost-containment criterion is managing fluctuations in construction costs, particularly labor costs. Figure 4 shows the annual changes in multifamily construction costs. The blue line shows changes in the Produce Price Index (PPI) for residential construction materials, and the maroon line shows changes in wages for multifamily construction workers in Minnesota.[9] Wages in particular can vary dramatically from year to year. Developers may plan for a modest 2 percent increase in wages in their funding application, only to find they have increased by 6 percent or 7 percent when construction starts. By taking the cost containment points in the selection process, developers are held accountable for keeping their costs down when construction occurs, even if costs spike. If final actual costs come in too high, we assess developers with *negative* four points for their next tax credit application.

**Figure 4: Measures of Cost Changes, 2004 to 2014**




With the 2015 applications for 2016 tax credits, we saw a 15 percent spike in proposed costs in the metro area for the developments that we awarded cost containment points, as shown in Table 4. This may be an unintended consequence of our cost containment strategy. There was high construction wage inflation in 2013 and 2014 (maroon line), which developers may have struggled to manage and keep costs down. When developing their 2015 applications, developers may have expected the higher inflation to continue and built that into their proposed costs. However, as shown in the cost data, construction costs actually dropped a little in 2015. Another factor contributing to the higher proposed costs may be developers padding their budgets. Developers risk losing four points on their next application for tax credits if they receive cost containment points on their current application and the actual costs on this project turn out to be too high. To protect against this risk, some developers may pad their budgets. (Because projects can take up to 20 months to close after being selected for funding,

[9] Construction cost data is from the Bureau of Labor Statistics, and the wage data is from the Minnesota Department of Employment and Economic Development's *Quarterly Census Employment and Wages*.

projects selected for funding in October 2015 will show up in our 2016 and 2017 cost data for closed projects, and projects selected in October 2016 will show up in the 2017 and 2018 data.)

**Table 4: Average Total Development Costs per Unit, 9 Percent Tax Credit Applications in the Metro Area that Were Awarded Cost Containment Points (Adjusted for Construction Inflation, 2016 Dollars)**

| | 2013 Applications (2014 Credits) | 2014 Applications (2015 Credits) | 2015 Applications (2016 Credits) | 2016 Applications (2017 Credits) |
|---|---|---|---|---|
| Metro New Construction | $210,058 | $210,795 | $242,536 | $242,129 |

In response to the increase in proposed costs and to encourage developers to pursue the cost containment points, eliminate unnecessary costs, and not excessively pad their budgets, we increased the cost containment points from four to six in the QAP for 2018 tax credits, but kept the penalty for cost overruns at negative four points. This increases the benefit of more aggressively pursuing cost containment relative to the risk. This new scoring will apply to applications that we will receive in June 2017.

### *Strategy 3: Address Systemic Cost Drivers*

The first two tactics address costs that are specific to individual developments. We also understand that systemic cost drivers outside the control of developers are a critical issue that we need to address. These cost drivers ranged from local policies and regulations that increased the cost of housing (such as maximum densities), to the large cash reserves that funders and investors may require for affordable housing developments, to the complexity of assembling the multiple sources of funding that make an affordable housing deal work.

In January 2014, Enterprise Community Partners and the Urban Land Institute's (ULI's) Terwilliger Center for Housing released a report on best practices from across the country to address these systemic cost drivers.[10] Overall, the report finds that containing and reducing costs in a prudent and effective way does not involve a single magic bullet. Rather, affordable housing costs are driven by dozens of small inefficiencies. As one of the lead authors described it, "death by a thousand cuts."[11]

To take on these cost drivers, we partnered with the McKnight Foundation, Enterprise, and ULI/Regional Conference of Mayors to create an initiative for Minnesota to implement these types of practices, which became the MN Challenge to Lower the Cost of Affordable Housing. It began in the winter of 2014 as an idea competition. We asked the development community to create cross-discipline teams (developers, funders, attorneys, local officials, housing advocates, etc.) and develop and submit ideas to address

[10] Enterprise Community Partners and Urban Land Institute's Terwilliger Center for Housing*, Bending the Cost Curve on Affordable Rental Development: Understanding the Drivers of Costs* (January 2014).
[11] Michael Spotts, Enterprise Community Partner, presentation to the Affordable Housing Investors Council (AHIC), Portland Oregon, October 9, 2014.

these systemic cost drivers. From the 12 submissions, we selected one to receive $70,000 for implementation.[12]

The winning idea was submitted by the Center for Urban and Region Affairs at the University of Minnesota, the Housing Justice Center, and Becker Consulting. Their proposal addressed the issue of local practices and policies that add to the cost of affordable housing, including fees, land-use and zoning policies, approval processes, and others. These cost drivers have been identified and known for years. The value of this idea was identifying and implementing best practices to address them, which included providing technical assistance to communities to pursue the practices and encouraging regional organizations to incorporate the practices and implementation strategies into their policies and guidelines, including the Metropolitan Council's Planning Handbook and Housing Performance Scores and ULI's Tool Box for local communities.

We have also initiated other projects to address systemic cost drivers.

- **Minnesota Housing's Multifamily Remodel Project.** While the MN Cost Challenge was kicking off, we were also initiating a remodel project for our Multifamily Division to redesign and streamline our application and funding processes - everything from proposal inception through application, selection, underwriting, closing, construction management, and lease up. The remodel will reduce the time it takes a development to move from concept to occupancy. A key finding from the Enterprise/ULI report identified complexity, uncertainty, and delays in the funding process as cost drivers. Several issues identified in the MN Cost Challenge's submissions addressed complexity, uncertainty, and delays in our application and funding processes. These issues and ideas were passed on to the Agency's team leading the remodel project. Even though the redesign is still being implemented, it has already achieved some positive outcomes. For example, between 2013 and 2014, the percentage of developments that closed their loans within 12 month of being selected for funding increased from 12% to 25%. While it is too early to report results from the October 2015 funding selections, we expect another significant improvement.

- **MinnDocs – Consolidated Legal Documents**. Most affordable housing projects have several funding sources, each with their own set of legal documents and attorneys, which add unnecessary costs. The Enterprise/ULI report highlighted Massachusetts' practice that consolidates legal documents for all subordinate debt into a single set. Because the development community in Minnesota was intrigued by this idea, we decided to pursue it. In 2015, we received a $70,000 grant from the McKnight foundation to implement the practice. The new legal documents are now being finalized. Massachusetts estimates that consolidated legal documents have reduced their costs by about $10,000 per subordinate loan for each development; however, the context is different in Minnesota, and we are unlikely to achieve that level of savings. If we did, MinnDocs would save $1,000 per unit for a 40-unit development with four subordinate loans. While this reduces total development costs by less than one

[12] The initiative was jointly funded by the McKnight Foundation and Minnesota Housing.

percent, it is a very tangible way of chipping away at costs and addressing one of the many inefficiencies. Furthermore, these unnecessary legal costs add up when Minnesota Housing typically finances 2,000 to 3,000 units each year.

- **Minnesota Housing's design and construction standards.** As part of our annual preparation for the consolidated RFP, we review these standards. During the past year, we specifically reviewed the standards with an emphasis on cost containment. We focused on reducing life-cycle costs, not just upfront costs but also ongoing maintenance, repair, and utility costs. Specifically, we surveyed architects, general contractors, and developers who work on the developments that we finance about the standards and costs. We received 66 responses. Based on the feedback, we made several design changes that should reduce costs. For example, we clarified that a separate dining room is not required in units with two or more bedrooms but that a dining area (or eat in kitchen) is sufficient. Each of the changes to the standards will unlikely result in significant savings, but they are more examples of small savings that can lead to larger savings when combined with each other over time.

# SINGLE FAMILY COSTS

While we typically distribute over $100 million annually for multifamily development, we only distribute $6 million to $8 million for single family development through our Community Homeownership Impact Fund. Consequently, we have focused our cost containment efforts more heavily on multifamily projects. In addition, while we directly administer multifamily funding to developers, we rely on local administrators to identify and fund the single-family projects. As a result, the level of cost data that we collect at the Agency for single-family projects is less detailed.

Nevertheless, single-family cost containment is also critical, and we are in the process of enhancing our strategies.

## Overview of Single-Family Costs

The total development costs for the single-family projects that we have financed are reasonable and consistent with industry benchmarks. Table 5 shows the median cost per home by location and activity for developments that we have financed over the last three and one-half years.

**Table 5: Impact Fund – Median TDC by Location and Project Type**
**Loans closed October 1, 2012 through February 29, 2016**

| Location | New Construction | Acquisition/Rehab/ Resale | Owner-Occupied Rehab |
|---|---|---|---|
| Rural Greater MN | $148,286 | $136,624 | $13,941 |
| Greater MN Large City | $151,801 | $155,003 | $20,400 |
| Minneapolis/Saint Paul | $305,057 | $211,609 | $15,933 |
| Suburban Twin Cities | $253,618 | $228,528 | $6,190 |
| **Total** | **$223,253** | **$192,588** | **$14,419** |

These costs are consistent with industry standards. Table 6 shows the RSMeans industry-wide costs for new construction (excluding acquisition and some soft costs) in Minneapolis/Saint Paul for different sized homes and designs. Our costs are in line with these benchmarks.

- The industry-wide construction costs for a 1,400 square-foot 1½ story home with an unfinished basement and average class design is $209,807, which is in the middle of the cost range shown in the Table 6.

- Assuming that construction costs account for 70 percent of the TDC and that acquisition and additional soft costs account for the remaining 30 percent, the TDC would be $299,724.

- The $305,057 median TDC for new construction financed by Minnesota Housing in Minneapolis/ Saint Paul (see Table 5) is consistent with the RSMeans costs.  It is just 1.7% higher.

**Table 6: RSMeans Estimated Construction Costs, 2016 (Excluding Acquisition and Some Soft Costs) In Minneapolis/Saint Paul, Average Class, Wood Siding**

| | 1,000 Sqft | 1,400 Sqft | 1,600 Sqft | 2,000 Sqft |
|---|---|---|---|---|
| **One Story** | | | | |
| No basement | $150,475 | $182,430 | $198,865 | $233,985 |
| With unfinished basement | $165,795 | $200,993 | $219,188 | $257,718 |
| With finished basement | $191,199 | $234,765 | $257,161 | $304,292 |
| **1 ½ Story** | | | | |
| No basement | $154,876 | $195,222 | $208,224 | $241,339 |
| With unfinished basement | $166,408 | $209,807 | $223,734 | $259,278 |
| With finished basement | $184,960 | $234,765 | $251,634 | $293,261 |
| **Two Story** | | | | |
| No basement | $162,063 | $190,542 | $209,256 | $240,559 |
| With unfinished basement | $172,090 | $202,865 | $223,110 | $256,158 |
| With finished basement | $187,355 | $224,392 | $247,267 | $285,796 |

Source: RSMeans, *Residential Cost Data, 2016*

## Strategies for Containing and Reducing Single-Family Costs

Until last year, we have relied solely on the professional expertise and judgement of our staff to assess the cost reasonableness of single-family projects. We are now becoming more systematic and objective in that assessment. Table 7 shows the range of costs per home that we have financed for new construction over the last three and one-half years. The benchmark for the 80$^{th}$ percentile is our threshold for flagging developments with a high cost per home. For example, if a new construction project in Minneapolis/Saint Paul proposes a TDC per home that exceeds $325,785, it will be flagged for additional scrutiny by staff. This is similar to using the threshold of 25 percent above the predictive model for multifamily projects.

As we collect better single-family cost data over a longer period of time, we will start reporting trend data and potentially develop a predictive cost model. This will allow us to create an accurate and formal process for reporting cost outliers to the Board when making selection and funding recommendations. While the current threshold of the 80$^{th}$ percentile has proven valuable for an initial discussion, it has deficiencies. It does not account for cost difference resulting from home sizes, garages, number of bathrooms, and other factors.

**Table 7: Impact Fund – TDC Benchmarks for New Construction, by Location**

| | TDC |
|---|---|
| **Rural Greater MN** | |
| Mean | $154,659 |
| Median | $148,286 |
| 20th percentile | $128,387 |
| 80th percentile | $181,240 |
| **Greater MN Large City** | |
| Mean | $160,205 |
| Median | $151,801 |
| 20th percentile | $144,977 |
| 80th percentile | $176,987 |
| **Minneapolis/Saint Paul** | |
| Mean | $302,300 |
| Median | $305,057 |
| 20th percentile | $278,692 |
| 80th percentile | $325,785 |
| **Suburban Twin Cities** | |
| Mean | $251,755 |
| Median | $253,618 |
| 20th percentile | $236,957 |
| 80th percentile | $281,437 |
| **Total** | |
| Mean | $230,295 |
| Median | $223,253 |
| 20th percentile | $148,257 |
| 80th percentile | $312,833 |

# CONCLUSION

Over the last decade, we have successfully contained development costs while adding new policy initiatives that tend to increase costs. However, given the growing need for affordable housing, limited resources, and the increasing pressure to do more with less, cost containment remains a critical issue. As this report highlights, there is no magic bullet. Rather, we must pursue multiple efforts to address the dozens of inefficiencies in the affordable housing development process. Minnesota Housing cannot do it alone. It will take an industry-wide partnership.

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**Board Agenda Item:** 8. .
**Date: 9/22/2016**

**Item:** Cultural Competency Committee

**Staff Contact(s):**
Cheryl Rice, 651.297.3124, cheryl.rice@state.mn.us
Heidi Welch, 651.297.3132, heidi.welch@state.mn.us

**Request Type:**

| | |
|---|---|
| ☐ Approval | ☒ No Action Needed |
| ☐ Motion | ☒ Discussion |
| ☐ Resolution | ☐ Information |

**Summary of Request:**
Staff will provide background on the Agency's Cultural Competency Committee, the reason for and results of our organizational cultural competency assessment and our next steps/work plan.

**Fiscal Impact:**
There will be minimal fiscal impact. Resources to provide some trainings have already been included in next year's Human Resources budget.

**Meeting Agency Priorities:**
☐ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**
- Cultural Competency Organizational Assessment and Next Steps

# Cultural Competency Organizational Assessment Themes and Actions Steps

Last updated: 9/8/16

## Organizational Assessment

The Cultural Competency Committee was formed in June 2015 in order to develop and implement an Agency-wide framework to foster a more culturally competent staff. The committee determined that an Organizational Assessment was needed in order to develop the Committee's work plan. An organizational assessment is an effective and systematic way to measure an organization's cultural competence and evaluate systematic progress.

For more information on the Organizational Assessment see Appendix A
For more information on the Cultural Competency Committee purpose and values, see Appendix B

**How the Organizational Assessment was conducted**
The Committee recently conducted a survey in February 2016 of all employees to measure perceptions towards cultural competency, focusing on

- Employee support and development
- External relationships.

One hundred twenty-four (124) employees responded to the survey. Employees were asked to indicate if they were a member of at least one "underrepresented" group, and the responses of the "non-underrepresented" and "underrepresented" groups were analyzed separately. Over half of the agency responded to the survey, and one-third (42) of all respondents were in an "underrepresented" group. Based on this response, it can be estimated that about one-third of the agency identifies as being part of an "underrepresented" group. These groups include:

- Non-white race
- Hispanic ethnicity
- Non-Christian religion
- Disabled
- Lesbian/Gay/Bisexual/Transgender
- Born in a foreign country

## Summary of Survey Results

Percentage of Staff who Responded by Level of Agreement

| | Non-underrepresented Group | | Underrepresented Group | | All | |
|---|---|---|---|---|---|---|
| | Strongly Agree / Agree | Disagree / Strongly Disagree | Strongly Agree / Agree | Disagree / Strongly Disagree | Strongly Agree / Agree | Disagree / Strongly Disagree |
| | Always / Sometimes | Rarely/ Never | Always / Sometimes | Rarely/ Never | Always / Sometimes | Rarely/ Never |
| | Yes | No | Yes | No | Yes | No |
| **Our organization:** | | | | | | |
| Is culturally competent & welcoming | 90.9% | 9.1% | 72.2% | 27.8% | 85.0% | 15.0% |
| Embraces unique needs, concerns, values & beliefs | 94.3% | 5.7% | 86.1% | 13.9% | 91.5% | 8.5% |
| Is committed to diversity in our Board | **51.4%** | 48.6% | **50.0%** | 50.0% | **50.8%** | 49.2% |
| Is committed to diversity in our management & SLT | **63.2%** | 36.8% | **47.1%** | 52.9% | **57.1%** | 42.9% |
| Is committed to diversity in our employees | 90.3% | 9.7% | 75.0% | 25.0% | 85.2% | 14.8% |
| Considers how culture can affect work styles & habits | 80.6% | 19.4% | **64.9%** | 35.1% | 74.7% | 25.3% |
| Uses training & supervision to assist employees to work with people from other cultures | **60.3%** | 39.7% | **41.7%** | 58.3% | **53.2%** | 46.8% |
| Offers professional development & training that includes cultural competency | 73.2% | 26.8% | **51.3%** | 48.7% | **65.5%** | 34.5% |
| Ensures cultural competency through policies, procedures & practices | 80.8% | 19.2% | 76.5% | 23.5% | 79.1% | 20.9% |
| Includes cultural competency in all our planning | 76.1% | 23.9% | **67.9%** | 32.1% | 73.0% | 27.0% |
| Creates, preserves and finances affordable housing for diverse communities | 100.0% | 0.0% | 100.0% | 0.0% | 100.0% | 0.0% |
| Addresses disparities in housing and support services related to: | | | | | | |
| • Race/ethnicity | 100.0% | 0.0% | 94.6% | 5.4% | 98.0% | 2.0% |
| • Languages spoken | 81.1% | 18.9% | 81.1% | 18.9% | 81.1% | 18.9% |
| • Disability | 96.9% | 3.1% | 94.9% | 5.1% | 96.1% | 3.9% |
| • Gender | 88.0% | 12.0% | 78.1% | 21.9% | 84.1% | 15.9% |
| • Sexual orientation & gender identity | 77.1% | 22.9% | **69.0%** | 31.0% | 74.0% | 26.0% |
| • Geography | 94.8% | 5.2% | 97.2% | 2.8% | 95.7% | 4.3% |
| Promotes cultural competency in partnerships with outside professionals & institutions | 89.7% | 10.3% | 85.2% | 14.8% | 87.9% | 12.1% |
| Considers the culture of its audience when providing information to external parties | 95.2% | 4.8% | 93.5% | 6.5% | 94.5% | 5.5% |
| **Flagging Potential Priority Area: Red = Below 60% Agreement and Yellow = 60% to 69% Agreement** | | | | | | |

Key Take-Aways from the Summary Table

- While there are clear areas for improvement, the Agency has a cultural competency foundation in place to build from. For 15 of the 19 survey questions, over 70 percent of all respondents agreed with the cultural competency statement or indicated that the Agency addresses the issue at least sometimes.
- A strong test of cultural competency is how staff from underrepresented groups assesses the Agency's competency.
    - For 12 of the 19, questions, over 70 percent of respondents from the underrepresented groups agreed with the cultural competency statement or indicated that the Agency addresses the issue at least sometimes.
    - Not surprisingly, staff from underrepresented groups have a lower level of agreement for 16 of the 19 assessment questions. However, the difference in agreement rates between staff from the underrepresented and non-underrepresented groups is less than 10 percentage points for 13 of the 19 questions, indicating that the two groups do not have dramatically different assessments. Awareness of cultural competency deficiencies, particularly by staff from the non-underrepresented group, is necessary to build and enhance cultural competency.
- The assessment questions with the lowest levels of agreement fall into two categories:
    - Being committed to diversity in the Agency's management and leadership.
    - Offering training that includes cultural competency and using training and supervision to assist employees to work with people from other cultures.

**Analysis of Comments**

280 individual comments were analyzed, and 5 themes emerged:

- Awareness. 95 comments were related to raising awareness of cultural competency and incorporating culturally competent practices into everyday decision-making. There were many questions about how cultural competency is defined, and how to make it applicable to all staff.
- External outreach. 63 comments were related to our external outreach efforts and how to ensure we are meeting the needs of Minnesotans from a variety of diverse cultures and backgrounds.
- Management and Resources. 40 comments were related to the importance of cultural competency being modeled by managers and senior leaders, including the need for resources to be allocated for cultural competency-related work.
- Training. 41 comments were related to the need for staff to have training opportunities, and a wide variety of different possible training methods were suggested.
- Hiring. 45 comments were related to diversity in staff at our Agency, whether we have the right strategies in place to recruit, retain, and promote qualified diverse staff, and how we communicate about these diverse hiring strategies.

## Themes from Employee Comments

| Awareness |
|---|
| • Many employees had positive things to say about the cultural competency work that has already been started. They mentioned the fact that the Committee has been formed as a good start; they liked the Occasions of Significance; several employees mentioned that they appreciated the training opportunities that had been provided. Other employees, however, didn't feel that anything was being done and suggested more visibility and communication is needed regarding cultural competency efforts. Consistent messaging of the internal and external efforts will demonstrate the agency's commitment to cultural competency.<br><br>• Employees expressed that they wanted a clearer definition on what cultural competency is and what the committee's purpose, goals and practices are. Will the committee have an internal focus only? How will cultural competency be measured? Several employees brought up the question of whether "cultural competency" is really what the Agency should be striving for, raising concerns that "competency" might be too low of a standard. Others urged that cultural competency needs to be about more than just race – it should include sexual identity, disability status, age, gender, etc. *"If the agency emphasized that cultural competency includes so much more than race… things such as gender, sexual identity, age, heritage, disability, etc., then more staff may see why 'cultural competency' is relevant to them."*<br><br>• When asked about the potential barriers to increasing the Agency's cultural competence, employees identified several: 1) not knowing what to do 2) fear of saying/doing the wrong thing 3) lack of information 4) resistance to change 5) lack of agreement on what it means to be culturally competent. |
| **External Outreach** |
| • Employees talked positively of Agency efforts to partner and collaborate with a variety of cultural groups on the Strategic Plan and programs, particularly outreach to tribal communities. There is a variety of tools and mechanisms in place to solicit input, and the Agency is seen as being inclusive and welcoming.<br><br>• Employees expressed that some of the focus and attention on homeownership disparity should be broadened to other issues. Some examples include: developing a broader network of partner organizations from underrepresented groups (21), partnering with non-housing service organizations and bringing them along to communities of color at outreach events (11), developing more materials in other languages (41), doing more targeted advertising (51), offering more support to community organizations to help them work with us (6), and including feedback from community organizations in program design.<br><br>• Employees identified several potential barriers for culturally competent external outreach, including: fear of offending or making mistakes, having a staff that isn't as diverse as the communities we serve, and addressing the fact that many diverse community organizations may not have the capacity or expertise to navigate the requirements to receive funding from Minnesota Housing. |
| **Management and Resources** |
| • Employees expressed that the leadership around cultural competency needs to be driven home by SLT. They would like to see managers model inclusivity, lead by example, and keep cultural competency in mind when making policy decisions that affect staff. Because there are fewer "underrepresented" employees in leadership roles, it's extremely important for managers to be sensitive to barriers that diverse employees face when adapting to existing cultural norms. The underrepresented group is less likely to feel that the agency is committed to cultural competency in its overall operations and practices. "We have hired more diverse staff but have not been intentional about creating an environment that supports diversity and cultural competency."<br><br>• Employees encouraged the Agency to be intentional about making an investment of time and resources into cultural competency. The largest barrier to a cultural competency initiative is lack of time and competing priorities.<br><br>• Because managers have a vital role in cultural competency work, the Agency needs to ensure they have the support and tools to understand and embrace differences on their team, and develop strong, diverse teams. |

| **Training** |
|---|
| • Employees mentioned the Mentor program, Emerging Leaders Institute, Senior Leaders Institute, Tuition Assistance Program, and other recent trainings and workshops as examples of things the Agency was doing well in regards to training. However, more work remains to be done to ensure equitable access to training opportunities.<br>• Employees expressed an appetite for more training on topics ranging from proper terminology, other cultures/races/religions, a forum to learn about other cultures, tribal housing issues, and events that include cultural food.<br>• While some employees did feel it was very important for the Agency to provide training connected to race issues on topics such as bias and privilege, others cautioned that we avoid "guilty of being white" training that would cause staff to be turned off. Several employees urged the committee to expand the list of topics beyond just race to include other areas like sexual identity, disability status, age, gender, etc.<br>• One potential issue that was raised is that employees who are part of a minority group may not want to be singled out to lead or participate in committee efforts.<br>• Some employees felt that all trainings should be optional, but other staff raised the point that if all trainings are optional, the staff who may need cultural competency training the most won't be likely to attend. |
| **Hiring** |
| • While many employees recognized that the Agency has made improvements in hiring and promoting a more diverse workforce, more improvements are needed, particularly in how the recruitment strategy is communicated to employees. Several employees indicated they weren't aware of what the Agency is doing to recruit qualified diverse employees, and assumed little, or nothing was being done. At the same time, caution is required when talking about hiring goals and diverse hiring strategies, because it can give the impression that someone has been hired or promoted just because they fill a "checkmark of diversity". Hiring an unqualified person for this reason reflects badly on the Agency's efforts to be culturally competent.<br>• Employees mentioned the need to enhance the recruitment pipeline through intern programs, promoting capable minority employees from within, setting ambitious hiring goals, working to attract a culturally diverse candidate pool, hire more board members and senior leaders of color, and building relationships with diverse communities.<br>• Many employees perceive that the Agency is not committed to diversity in management and SLT. A frequently mentioned theme in the comments is that leadership must "walk the walk" and focus on creating a more racially diverse leadership team. "We need to have a commitment to diversity in hiring and diversity in leadership. This must be more than words on a page – our commitment must be reflected in actions and decision-making." An important part of improving the diversity of the leadership team is ensuring that employees of color are receiving access to training, development, and advancement opportunities as "non-underrepresented" group employees. Concerns were raised by employees who are part of the "underrepresented" group that they don't feel they are getting the same access to highly desired training and advancement opportunities. |

# Cultural Competency Committee Action Plan July 2016-June 2017

**Category = ✓**

| Key Activity/Initiative | Narrative Explaining Expected Outcome | Primary Measure (Output, Outcome or Deadline) | Awareness | External Outreach | Management & Resources | Training | Hiring | Staff Leads and Roles | Other Divisions and Roles | Status:<br>• On Track / Completed<br>• Delayed/ Caution<br>• Corrective-Action | Status Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Work together with Agency leadership to clearly define the purpose, goals, and practices of the committee and communicate this to staff. This should include a definition of what cultural competency is.<br>• Report back to Senior Leadership on progress at least annually or more frequently as needed. | Support from leadership is important for these initiatives to be successful. | Report provided to SLT by no later than May 2017. | ✓ | | ✓ | | | John Patterson, SLT liaison | SLT | | |
| Build awareness of the Committee's initiatives with the Board.<br>Present information about the Committee at a board meeting.<br>Make "Race: The Power of an Illusion" series available to Board members. | Support and collaboration with Board members is important for these initiatives to be successful. | Presentation to the Board on or before December 2016. | ✓ | | | | | Heidi Welch, Cheryl Rice will present | Mary T. Becky Schack | | |
| Continue to conduct the organizational assessment survey every other year in order to measure ongoing progress towards the committee's goals. Conduct focus groups as needed. | The survey will allow the Committee to measure results in a tangible manner. | Will begin process to conduct survey in December 2017, send out assessment in May 2018. Brief report based on survey. | ✓ | | | | | Committee | Ask all staff to participate | | |

| Key Activity/Initiative | Narrative Explaining Expected Outcome | Primary Measure (Output, Outcome or Deadline) | Awareness | External Outreach | Management & Resources | Training | Hiring | Staff Leads and Roles | Other Divisions and Roles | Status:<br>• On Track / Completed<br>• Delayed/ Caution<br>• Corrective-Action | Status Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Host an informational session about the Committee and recruit new members for June 2017. | Conducting wide recruitment will allow for a better committee and better representation. | Informational Session by June 2017. New members thereafter. | ✓ | | | | | Committee | | | |
| Market and promote cross cultural events and terminology (examples: Juneteenth, Native American powwows, etc). | Educates staff and allows employees to bring their authentic selves to work. | Regular postings on Agency Intranet. | ✓ | | | ✓ | | Cheryl Rice | Communic ations | | |
| Include cultural competency-related topics in the commissioner's update on a regular basis. | Educates staff and allows employees to bring their authentic selves to work. | Regular feature in commissioner's update. | ✓ | | ✓ | | | Cheryl Rice | Megan Ryan | | |
| Begin communicating more with staff about the recruitment strategies already in place.<br>• Utilize Committee to help communicate the strategies in a culturally competent manner<br>• Introduce and feature board members to staff, possibly in Commissioner's Update | Many staff are not aware of recruitment strategies in place to attract and retain diverse talent. | Features in commissioner or division updates. | ✓ | | | | ✓ | Kim will coordinate communica tion | HR team – collaborate with committee<br><br>Mary T., Megan R. | | |

| Key Activity/Initiative | Narrative Explaining Expected Outcome | Primary Measure (Output, Outcome or Deadline) | Awareness | External Outreach | Management & Resources | Training | Hiring | Staff Leads and Roles | Other Divisions and Roles | Status:<br>• On Track / Completed<br>• Delayed/ Caution<br>• Corrective-Action | Status Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Have Committee consult on the Affirmative Action Plan process, the Governor's diversity and inclusion initiatives including the work of the three Councils (procurement, State's workforce, community engagement), Agency goals and objectives, key principles, strategies and actions, as well as performance tracking measures and provide consultation to other Agency staff on diversity and inclusion-related issues. | Utilizing Committee allows additional viewpoints and perspectives to be included in Agency processes. | Ongoing, as needed. | ✓ | | | | ✓ | Kim | Other staff who need consultation on diversity-related issues. | | |
| In fiscal year 2017, provide at least ½ day of cultural competency training for managers and 1-3 trainings for staff. Ensure there is equitable access to training opportunities for all employees and provide opportunities to employees from underrepresented groups to advance. | Staff and managers will have more awareness and understanding of issues related to cultural competency. | At least one training for managers and one training for staff will have occurred.<br><br>Evaluation of responses to training opportunity question in organizational assessment. | | | ✓ | ✓ | | Kim and Dan will coordinate the trainer, Committee will help determine topic. | Dan Boomhower | | |
| Provide a comprehensive cultural competency training program that includes a variety of topics, venues, trainers, and styles, to appeal to a variety of different learning styles. Based on feedback from staff, the Committee will: | | Learning Sessions, Panel Discussion will have occurred. | | ✓ | | ✓ | | TBD | | | |

| Key Activity/Initiative | Narrative Explaining Expected Outcome | Primary Measure (Output, Outcome or Deadline) | Awareness | External Outreach | Management & Resources | Training | Hiring | Staff Leads and Roles | Other Divisions and Roles | Status:<br>• On Track / Completed<br>• Delayed/ Caution<br>• Corrective-Action | Status Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| • Coordinate a learning session focused around learning about another culture's traditions, food, music, and language, etc. Work to learn about a culture that we as an Agency serve.<br>• Watching films or YouTube videos on a variety of topics and having a facilitated discussion afterwards. (Complete)<br>• Host a panel discussion with employees of different cultures, talking about their experiences and backgrounds. | | | | | | | | | | | |

# Appendix A - Cultural Competence Organizational Assessment

Updated January 12, 2016

**What is cultural competence?**

Cultural competence means that organizations:

- Have a defined set of values and principles, and demonstrate behaviors, attitudes, policies and structures that enable them to work effectively cross-culturally;
- Have the capacity to value diversity, conduct self-assessment, manage the dynamics of difference, acquire and institutionalize cultural knowledge, and adapt to the diversity and cultural contexts of the individuals and communities they serve; and
- Incorporate the above in all aspects of policy making, administration, practice, service and delivery.

Cultural competence is a developmental process that evolves over an extended period. Both individuals and organizations are at various levels of awareness, knowledge, and skills along the cultural competence continuum.

**What is an organizational assessment? Why conduct one?**

An organizational assessment is an effective and systematic way to measure an organization's cultural competence and evaluate systematic progress. An assessment should address the attitudes, behaviors, policies, structures and practices of an organization. The assessment will reveal opportunities to create goals, establish best practices, and also demonstrate areas of success. Most important, the very act of conducting the assessment is a statement to the workforce that the organization values diversity and desires to increase its cultural competence.

**Who is responsible for conducting the organizational assessment?**

The Agency's Cultural Competency Committee, which began meeting in June 2015, will lead the organizational assessment.

**What are the guiding principles for the organizational assessment?**

- <u>An organizational assessment is a strengths-based model</u>. The purpose is to identify and promote growth among individuals and within organizations that enhances the capacity of staff and the ability to deliver culturally competent services.
- <u>A safe and non-judgmental environment is essential to the assessment process</u>. An organizational assessment is most productive when conducted in an environment that offers participants an opportunity to give honest statements of their level of awareness, knowledge, and skills related to cultural competence and ensures that they information provided will be used to effect meaningful change within the organization.

- The results of the organizational assessment are used to enhance and build capacity. The intent of the organizational assessment is neither to give a score or rating nor to label an individual or an organization. Rather, it is intended to provide a snapshot of where an individual or organization is at a particular point in time. Results will be used for strategic planning, quality improvement, and organizational change processes.
- Diverse dissemination strategies are essential to the organizational assessment process. The results should be shared with participants and key stakeholders in a manner that meets their specific needs. The approach involves identification of the audiences and presentation of the data in formats that are most useful and accessible to them.

**What are the steps in the organizational assessment?**

1. Communicate the Plan
   a. A senior leader provides an announcement to staff about the assessment, its purpose, and what the organization will do with the results.
2. Survey
   a. The Committee will send out a survey to all employees to measure perceptions towards cultural competency. The survey will be anonymous and will ask comprehensive questions about cultural competency at the Agency.
3. Report on themes and initial action steps
   a. The Committee will review the findings from the survey, identify the key themes and draft some initial action steps. The Committee will report on the themes and initial action steps to the Senior Leadership Team for input, and then report to the Agency.
4. Focus Groups
   a. The Committee will conduct focus groups to explore further some issues identified in the survey, to clarify areas that are ambiguous, and to gather input on the initial action steps.
   b. The Committee will seek out volunteers to participate in the focus groups. The Committee will review who has volunteered and do additional recruiting, if necessary, to ensure the focus groups are inclusive and representative.
5. Create Work Plan
   a. The Committee reviews the data from the survey, focus groups, and reviews best practices.
   b. Drawing on the data and analysis, the Committee will create a work plan to address areas of weakness.
6. Report and Action
   a. The Committee communicates the work plan to Senior Leadership, management, and employees.
   b. The report will include areas of strength and weakness and specific recommendations for actions to be taken, identifying who would be accountable for taking the actions.

7. Ongoing measurement
    a. The Committee will plan a timetable to repeat all or portions of the Organizational Assessment.

**How do the focus groups work?**

- The interviews are confidential and results will only be shared in aggregate form. The interviews should elicit information about those policies and practices that impact on ethnic/cultural competence. They should identify both support and barriers to ethnic/cultural competence. They should provide the opportunity to learn about the individuals' opinions and attitudes about this subject and to explore related areas that may not be covered in the questionnaire.

# Appendix B - Cultural Competency Committee Purpose and Values

Updated July 25, 2016

**Draft Purpose**

The purpose of the Cultural Competency Committee is to develop and implement an Agency-wide framework to foster a more culturally competent staff. The Cultural Competency Committee is committed to building a more welcoming and inclusive workplace for all employees at Minnesota Housing.

**Members**

Kevin Knase (co-chair)

Judith Leatherwood

Kim Luchsinger (co-chair)

Rose Marsh

John Patterson

William Price

Cheryl Rice

Heidi Welch

**Committee Information**

- The Committee will have up to 9 members from a variety of backgrounds, cultures, divisions, and seniority levels.
- The Committee will be reflective of the diversity and make-up of the Agency.
- The initial Committee will carry out the inaugural Cultural Competence Organizational Assessment, analyze the results, and start planning. Competency issues identified in the initial assessment will help identify the perspectives and backgrounds that will be emphasized in the second round of committee members.
- The Committee began meeting in June 2015.

**Guiding Principles and Values for the Committee and Agency**

- We will acknowledge and respect differences.
- We will learn from others and engage in respectful dialogue.
- We are committed to positive and proactive individual and Agency growth.

**Board Agenda Item:** 9.A
**Date: 9/22/2016**

**Item:** Post-Sale Report, State Appropriation Bonds (Housing Infrastructure) 2016 Series ABC

**Staff Contact(s):**
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

**Request Type:**

| | |
|---|---|
| ☐ Approval | ☒ No Action Needed |
| ☐ Motion | ☐ Discussion |
| ☐ Resolution | ☒ Information |

**Summary of Request:**
The Agency sold $18,625,000 of State Appropriation (Housing Infrastructure) Bonds, 2016 Series ABC on August 16, 2016 with a closing on September 1, 2016. In accordance with the Debt Management Policy the attached post-sale report is provided by the Agency's financial advisor, CSG Advisors.

**Fiscal Impact:**
None.

**Meeting Agency Priorities:**
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**
- Post-Sale Report

CSG | advisors

Via Email Delivery

**MEMORANDUM**

**Date:** **August 29, 2016**

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

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

**Re:** **Post-Sale Report**
**$18,625,000 State Appropriation Bonds (Housing Infrastructure)**
**2016 Series A/B/C**

---

**KEY RESULTS FOR MHFA**

***Fifth Housing Infrastructure Financing.*** The $18,625,000 2016 Series A/B/C bonds are the fifth financing under this indenture. The prior issues were $15,460,000 2013 Series A/B, $14,540,000 2014 Series A/B, $37,570,000 2015 Series A/B, and $31,095,000 2015 Series C. While all of the Housing Infrastructure financings are secured on a parity basis, particular series are issued under different appropriations limits. The 2016 Series A/B/C bonds bring MHFA close to the current appropriations limit, with just $2,710,000 of remaining par amount that is authorized but unissued and approximately $1,358,000 of remaining annual debt service that could be incurred from 2017 through 2038.

***Purpose.*** MHFA issued the 2016 Series A/B/C State Appropriations Bonds to fund soft gap loans for five separate projects and to pay costs of issuance. Four of the loans are for affordable multifamily developments and the fifth is for one or more community land trusts. These gap loans do not provide the security for or help repay the bonds. The bonds are paid solely from the State's general fund appropriation.

Under the relevant authorizing legislation, MHFA may use bond proceeds to make loans to help finance costs of:

- all or a portion of the costs of the construction, acquisition and rehabilitation of supportive housing for individuals and families who are without a permanent residence,
- all or a portion of the costs of the acquisition and rehabilitation of abandoned or foreclosed property to be used for affordable rental housing and the construction of rental housing on that property where the existing structures will be demolished or removed,
- that portion of the costs of the acquisition of abandoned or foreclosed property that is attributable to the land to be leased by community land trusts to low and moderate income homebuyers,
- all or a portion of the costs of the acquisition and rehabilitation or refinancing of federally assisted rental housing, including refunding outstanding bonds issued by the Agency or another governmental unit, and
- all or a portion of the costs of the construction, acquisition, and rehabilitation of supportive housing for girls and women to provide them protection from and the means to escape exploitation and trafficking.

## KEY FEATURES OF THE BONDS

***Limited Obligations of MHFA.*** The bonds are not secured or guaranteed by MHFA and are payable solely from the State Appropriations.

***Appropriations Risk.*** The Housing Infrastructure State Appropriations are a standing annual appropriation that does not require any further action by the Legislature for payments to be made in future years. As provided by Minnesota law, a standing appropriation may be reduced or repealed entirely by the Legislature; this would have significant credit consequences for the State. The bonds are therefore rated slightly below the state General Obligation bonds because of this possible non-appropriation risk.

***Ratings.*** The bonds are rated Aa2 by Moody's and AA by Standard & Poor's.

***Separation Into Multiple Series to Facilitate Access to Low Income Housing Tax Credits.*** The bonds are divided into three series, in part to meet Tax Code provisions. The 2016 Series A bonds and 2016 Series C bonds are private activity bonds using volume cap. As such, the Series A and Series C proceeds can help assisted developments qualify for 4% low income housing tax credits that can help further leverage the state appropriation. Interest on the A and C bonds are subject to the Alternative Minimum Tax. The 2016 Series B bonds are <u>not</u> private activity bonds and are not subject to the Alternative Minimum Tax.

***Serial/Term Bond Structure.*** The Series A bonds were structured with serial maturities from 2019 through 2037. The Series B bonds were structured as serial maturities from 2017 through 2019. The Series C bonds were structured as serial maturities from 2017 through 2038.

***Original Issue Discounts and Premiums:*** The bonds were structured with original issue discounts on some maturities and premiums on other maturities. Overall, there was a net reoffering premium of $1.163 million..

## MHFA's LOANS

***Housing Infrastructure Loans.*** The Housing Infrastructure Loans funded by the bond proceeds will be 0% interest, non-amortizing, nonrecourse deferred loans. Certain of the loans may be forgivable, if the affordability conditions are met.

***Additional MHFA Financing.*** In addition to the anticipated Housing Infrastructure Loans funded by the bonds, MHFA may make other loans to one or more of the developments.

## UNDERWRITING

RBC Capital Markets served as senior managing underwriter, with Piper Jaffray & Co. and Wells Fargo Securities as co-managers.

The day prior to the sale, RBC solicited pricing views of the co-managers and shared these with MHFA and CSG along with their consensus proposed scale and pricing comps. CSG also independently provided MHFA with draft pricing comparables (see final version attached). To maximize the attractiveness of the bonds to a broad range of investors, RBC structured some of the maturities with multiple coupon levels among the series; for example, the 2020 maturity was offered with a 3% coupon for Series A and a 2% coupon for Series C, with each priced to yield 1.02%. This was done to help attract as many different types of investors as possible.

The bonds were sold on Tuesday morning, August 16th, with a single order period. During the pricing period, $43,290,000 of orders were received, representing an overall oversubscription factor of approximately 2.3 times. Nearly all maturities received orders, with maturities in the 2028-2035 range having particularly strong orders with some maturities oversubscribed approximately 4 times. On these maturities, RBC shifted some investors toward maturities in the other series that had not been fully subscribed and lowered the yield by 3 basis points. The final true interest cost of the overall issue was 2.788%.

Minnesota retail received first priority (for individuals only and with a maximum order size of $250,000), with $2,060,000 of retail orders received, including $1,840,000 through RBC and $220,000 through the other underwriters.

The total underwriter's discount was $141,437 or approximately 0.76% of the $18,625,000 bond par amount. Takedowns were $3.75 for the 2017-2026 bonds and $5.00 for all other bonds. Management fees and takedowns were appropriate, consistent with industry standards, and in the same range as fees reported for other issues of similar credit, size and structure.

**MARKET CONDITIONS**

***Economic Calendar.*** Economic signals have continued to be mixed as to the pace of economic recovery. On the day of the sale, the Consumer Price Index showed a weak monthly change at 0.0%, equal to the consensus estimate, while Housing Starts were a little stronger than expected at an annualized rate of 1.211 million compared to consensus estimate of 1.18 million, and Industrial Production was considerably stronger than expected with a monthly change of 0.7% as compared to a consensus estimate of 0.3%.

***Treasuries.*** In the week following the unexpected "Brexit" vote in late June, the flight of investors to the safety of U.S. Treasury bonds drove Treasury yields to their all-time lows in early July of 1.37% for the 10-year and 2.11% for the 30-year. Since then, Brexit fears have abated somewhat and investors have returned to the stock market as well. Treasury yields have risen slightly over the last month, but are still extremely low historically, closing at 1.57% for the 10-year and 2.29% for the 30-year on the day of pricing (see Exhibit 8 for rate graphs). Despite added volatility in 2016 stemming from widespread weak international economic performance and the Brexit shock, generally favorable U.S. economic reports, continuing low inflation rates, and stimulative policies by central banks around the world, including many with interest rates at zero or negative, have helped to hold down U.S. rates.

***Municipals.*** For the week of the sale, TM3 reported that their municipal market sentiment survey revealed that market participants expected quiet, sideways trading to continue in the municipal market, with market moves expected to be contained by the typically light activity in the days leading into Labor Day. TM3 also reported that August reinvestment cash, positive money inflows into municipal bond mutual funds, and lighter supply were seen as insulating municipals against any significant selling of Treasury bonds.

- Municipal bond volume for the week was projected to be relatively low, with $5.3 billion estimated as compared to $8.18 billion sold in the prior week and a year-to-date average of around $8 billion.
- Positive net mutual fund inflows for more than 9 months have helped to absorb new issue supplies and to allow muni yields keep pace with improvements in Treasury bond yields.
- The 10- and 30-year MMD indices relative to the respective Treasury bond yields remain well above long-term historical averages.

**COMPARABLES**

Attached is a listing of recent comparable bond pricings. The first page includes a variety of other Minnesota transactions priced in the three weeks leading up to sale of MHFA's 2016 Series A/B/C. The second page shows the most recent three of the prior MHFA State Appropriation Bond issues, including those from 2014 and 2015.

The comps show a wide variety of spreads to the interpolated MMD curve for particular maturities, with MHFA's bonds generally at the higher end. This is due in part to the different credits shown on the first page, where MHFA's 2016 Series A/B/C bonds are unique in bearing state appropriations risk rather than providing a general obligation credit or simple revenue credit, and also in being related to housing, where investors generally perceive higher risks including compliance with affordability requirements.

Compared to MHFA's prior State Appropriations financings shown on the second page of the attached, the 2016 Series A/B/C bonds had generally higher spreads to the interpolated MMD curve. This is due in part to the much lower absolute yields on 2016 Series A/B/C than last year. The Bond Buyer Revenue Bond Index is over 100 basis points lower now than when MHFA issued its 2015 State Appropriation Bonds, and over 200 basis points lower than at the time of the 2014 financing. At these low absolute yields, spreads have widened out for particular credits.

**PRICING COMPARABLES: Selected Recent Issues Plus MHFA HIB 2014 and 2015**

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Pricing Date | | 8/16/16 | | | 8/9/16 | | | 8/3/16 | | | 7/28/16 | | |
| Amount | | $16,905,000 | | | $23,315,000 | | | $22,845,000 | | | $63,315,000 | | |
| Issuer | | Minnesota HFA | | | St. Louis County, MN | | | MN Higher Ed Facils Auth | | | Minnesota Municipal Power | | |
| Series | | 2016 Series ABC (Housing Infr) | | | 2016A Cap Improv Bonds | | | Series Eight (St. Olaf Coll.) | | | Series 2016 | | |
| Program | | Appropriations / Negotiated | | | GO / Competitive | | | Revenue / Competitive | | | Revenue / Negotiated | | |
| Rating(s) | | Aa2 / AA / - | | | - / AA+ / - | | | A1 / - / - | | | A2 / - / A | | |
| Year | Maturity ('16 pricings) | Coupon | Yield | Spread to iMMD | Coupon | Yield | Spread to iMMD | Coupon | Yield | Spread to iMMD | Coupon | Yield | Spread to iMMD |
| 0 | 2016 | | | | | | | | | | | | |
| 1 | 2017 | 3.000 / 2.000 | 0.61 | +15 | 2.000 | 0.50 | +2 | | | | | | |
| 2 | 2018 | 3.000 / 2.000 | 0.72 | +20 | 5.000 | 0.61 | +7 | | | | 3.000 | 0.76 | +23 |
| 3 | 2019 | 3.000 / 2.000 | 0.85 | +25 | 5.000 | 0.72 | +8 | | | | 3.000 | 0.88 | +27 |
| 4 | 2020 | 3.000 / 2.000 | 1.02 | +30 | 5.000 | 0.85 | +8 | 3.000 | 0.95 | +19 | 5.000 | 1.01 | +27 |
| 5 | 2021 | 3.000 / 2.000 | 1.20 | +35 | 5.000 | 1.00 | +8 | 3.000 | 1.13 | +23 | 5.000 | 1.17 | +29 |
| 6 | 2022 | 3.000 / 2.000 | 1.42 | +40 | 5.000 | 1.20 | +11 | 3.000 | 1.33 | +27 | 5.000 | 1.37 | +34 |
| 7 | 2023 | 3.000 / 2.000 | 1.58 | +44 | 5.000 | 1.35 | +15 | 4.000 | 1.50 | +32 | 5.000 | 1.51 | +37 |
| 8 | 2024 | 3.000 / 2.000 | 1.70 / 1.72 | +47 / +49 | 5.000 | 1.45 | +16 | 4.000 | 1.64 | +37 | 5.000 | 1.64 | +41 |
| 9 | 2025 | 3.000 / 2.000 | 1.81 / 1.86 | +49 / +54 | 4.000 | 1.55 | +17 | 4.000 | 1.79 | +42 | 5.000 | 1.77 | +44 |
| 10 | 2026 | 3.000 / 2.000 | 1.95* / 2.00 | +54 / +59 | 3.000 | 1.70 | +22 | 4.000 | 1.89 | +42 | 5.000 | 1.90 | +47 |
| 11 | 2027 | 4.000 / 2.000 | 2.05* / 2.15 | +54 / +64 | 2.000 | 2.00 | +43 | 4.000 | 2.00* | +44 | 2.125 | 2.19 | +66 |
| 12 | 2028 | 4.000 / 2.250 | 2.20* / 2.33 | +61 / +74 | 2.000 | 2.15 | +50 | 2.250 | 2.34 | +70 | 5.000 | 2.12* | +51 |
| 13 | 2029 | 4.000 / 2.375 | 2.32* / 2.45 | +66 / +79 | 2.125 | 2.30 | +58 | | | | 5.000 | 2.18* | +51 |
| 14 | 2030 | 4.000 / 2.500 | 2.40* / 2.56 | +68 / +84 | 2.250 | 2.40 | +64 | 2.375 | 2.56 | +82 | 5.000 | 2.24* | +53 |
| 15 | 2031 | 4.000 / 2.625 | 2.49* / 2.67 | +71 / +89 | 2.375 | 2.50 | +69 | | | | 5.000 | 2.29* | +53 |
| 16 | 2032 | 4.000 / 2.750 | 2.54* / 2.77 | +71 / +94 | | | | 4.000 | 2.49* | +65 | 5.000 | 2.34* | +53 |
| 17 | 2033 | 4.000 / 2.750 | 2.59* / 2.875 | +71 / +100 | | | | 4.000 | 2.49* | +60 | 5.000 | 2.39* | +53 |
| 18 | 2034 | 4.000 | 2.64* | +71 | | | | 4.000 | 2.54* | +60 | 3.000 | 2.99* | +108 |
| 19 | 2035 | 4.000 | 2.69* | +71 | | | | 4.000 | 2.59* | +60 | 5.000 | 2.47* | +51 |
| 20 | 2036 | 3.000 | 3.01 | +99 | | | | | | | 5.000 | 2.51* | +51 |
| 21 | 2037 | 3.000 | 3.03 | +99 | | | | | | | | | |
| 22 | 2038 | 3.000 | 3.04 | +98 | | | | | | | | | |
| 23 | 2039 | | | | | | | | | | | | |
| 24 | 2040 | | | | | | | | | | | | |
| 25 | 2041 | | | | | | | | | | 4.000 | 2.83* | +76 |
| 26 | 2042 | | | | | | | | | | | | |
| 27 | 2043 | | | | | | | | | | | | |
| 28 | 2044 | | | | | | | | | | | | |
| 29 | 2045 | | | | | | | | | | | | |
| 30 | 2046 | | | | | | | | | | | | |
| Notes | | * Yields to first optional call; "/" indicates Series A/C with different coupons | | | | | | * Yields to first optional call | | | * Yields to first optional call | | |
| Maturity Dates | | 8/1 | | | 12/1 | | | 10/1 | | | 10/1 | | |
| Call Provisions | | 8/1/25 at par | | | 12/1/25 at par | | | 10/1/26 at par | | | 10/1/26 at par | | |
| Mkt Index | | BBI / RBI 2.85% / 3.06% | | | BBI / RBI 2.85% / 3.06% | | | BBI / RBI 2.85% / 3.06% | | | BBI / RBI 2.85% / 3.06% | | |
| Sr Manager | | RBC Capital Markets | | | Robert W. Baird | | | Piper Jaffray | | | BofA Merrill | | |

**PRICING COMPARABLES: Selected Recent Issues Plus MHFA HIB 2014 and 2015**

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Pricing Date | | | 9/1/15 | | | 2/18/15 | | | 2/6/14 | |
| Amount | | | $31,095,000 | | | $37,570,000 | | | $14,540,000 | |
| Issuer | | | Minnesota HFA | | | Minnesota HFA | | | Minnesota HFA | |
| Series | | | 2015 Series C (Housing Infr) | | | 2015 Series A,B (Housing Infr) | | | 2014 Series A,B (Housing Infr) | |
| Program | | | Appropriations / Negotiated | | | Appropriations / Negotiated | | | Appropriations / Negotiated | |
| Rating(s) | | | Aa2 / AA / - | | | Aa2 / AA / - | | | Aa2 / AA / - | |
| Year | Maturity ('16 pricings) | Coupon | Yield | Spread to iMMD | Coupon | Yield | Spread to iMMD | Coupon | Yield | Spread to MMD |
| 0 | 2016 | | | | 2.000 | 0.13 | | | | |
| 1 | 2017 | 2.000 | 0.34 | +12 | 3.000 | 0.34 | +5 | 3.0000 | 0.33 | +10 |
| 2 | 2018 | 3.000 | 0.72 | +13 | 4.000 | 0.67 | +11 | 3.0000 | 0.51 | +14 |
| 3 | 2019 | 4.000 | 1.04 | +18 | 4.000 | 1.01 | +17 | 4.0000 | 0.82 | +21 |
| 4 | 2020 | 4.000 | 1.34 | +21 | 4.000 | 1.26 | +22 | 4.0000 | 1.22 | +25 |
| 5 | 2021 | 5.000 | 1.58 | +25 | 4.000 | 1.53 | +27 | 4.0000 | 1.56 | +30 |
| 6 | 2022 | 5.000 | 1.88 | +27 | 5.000 | 1.74 | +29 | 2.0000 | 2.02 | +35 |
| 7 | 2023 | 5.000 | 2.12 | +32 | 5.000 | 2.00 | +31 | 2.3750 | 2.39 | +41 |
| 8 | 2024 | 5.000 | 2.28 | +33 | 2.150 | 2.18 | +33 | 4.0000 | 2.74 | +47 |
| 9 | 2025 | 5.000 | 2.42 | +35 | 2.300 | 2.34 | +34 | 2.9000 | 2.95 | +50 |
| 10 | 2026 | 5.000 | 2.54* | +36 | 5.000 | 2.50* | +38 | 3.1250 | 3.13 | +54 |
| 11 | 2027 | 4.000 | 2.93* | +63 | 5.000 | 2.64* | +41 | 3.2500 | 3.25 | +53 |
| 12 | 2028 | 4.000 | 3.07* | +68 | 5.000 | 2.75* | +42 | 5.0000 | 3.45* | +61 |
| 13 | 2029 | 4.000 | 3.16* | +67 | 3.000 | 3.15 | +72 | 3.5000 | 3.65 | +69 |
| 14 | 2030 | 4.000 | 3.25* | +68 | 5.000 | 2.88* | +41 | 3.6250 | 3.75 | +70 |
| 15 | 2031 | 3.250 | 3.48 | +83 | 5.000 | 2.93* | +41 | 3.7500 | 3.84 | +70 |
| 16 | 2032 | 3.375 | 3.56 | +83 | 5.000 | 2.97* | +40 | 3.7500 | 3.93 | +70 |
| 17 | 2033 | 5.000 | 3.19* | +41 | 5.000 | 3.02* | +41 | 4.0000 | 4.00 | +68 |
| 18 | 2034 | 5.000 | 3.24* | +41 | 5.000 | 3.06* | +41 | 4.0000 | 4.05 | +65 |
| 19 | 2035 | 5.000 | 3.28* | +41 | 5.000 | 3.09* | +40 | 4.0000 | 4.10 | +62 |
| 20 | 2036 | 5.000 | 3.31* | +41 | 5.000 | 3.13* | +40 | 4.7500 | 4.08* | +55 |
| 21 | 2037 | 5.000 | 3.35* | +41 | | | | 5.0000 | 4.08* | +50 |
| 22 | 2038 | 5.000 | 3.38* | +41 | | | | | | |
| 23 | 2039 | | | | | | | | | |
| 24 | 2040 | | | | | | | | | |
| 25 | 2041 | | | | | | | | | |
| 26 | 2042 | | | | | | | | | |
| 27 | 2043 | | | | | | | | | |
| 28 | 2044 | | | | | | | | | |
| 29 | 2045 | | | | | | | | | |
| 30 | 2046 | | | | | | | | | |
| Notes | | | * Yields to first optional call | | | * Yields to first optional call | | | * Yields to first optional call | |
| Maturity Dates | | | 8/1 | | | 8/1 | | | 8/1 | |
| Call Provisions | | | 8/1/24 at par | | | 8/1/24 at par | | | 8/1/23 at par | |
| Mkt Index | | | BBI / RBI 3.79% / 4.20% | | | BBI / RBI 3.60% / 4.23% | | | BBI / RBI 4.46% / 5.32% | |
| Sr Manager | | | RBC Capital Markets | | | RBC Capital Markets | | | RBC Capital Markets | |

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Minnesota Housing Finance Agency

**Board Agenda Item:** 9.B
**Date: 9/22/2016**

**Item:** Quarterly Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)

**Staff Contact(s):**

Ruth DuBose, 651.297.3128, ruth.dubose@state.mn.us
Tal Anderson, 651.296.2198, tal.anderson@state.mn.us

**Request Type:**

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☐ Discussion
- ☒ Information

**Summary of Request:**

The information provided is a summary of intake data and outcomes from August 1, 2014 – June 30, 2016 of the Homeownership Capacity program. This is an information item and does not require approval.

**Fiscal Impact:**

None.

**Meeting Agency Priorities:**

☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Quarterly Program Update

**Quarterly Program Update:**
A total of 10 agencies have been approved to provide Homeownership Capacity services since the beginning of the program which started August 1, 2014. A total of 1,061 clients have started receiving Homeownership Capacity services since that date.

The chart below identifies additional information about these clients:

| | Percent of clients |
|---|---|
| Identify as a household of color or Hispanic ethnicity | 84% |
| At or below 80% AMI | 95% |
| Credit identified as the primary barrier to obtaining homeownership | 70% |

As of June 30, 2016, 274 clients have exited the program with the following outcomes:

| | Percent of clients that exited the program |
|---|---|
| Home purchase* | 45% |
| Client is actively pursuing homeownership^ | 5% |
| Client is still interested in homeownership, just not at this time | 11% |
| Client is no longer interested in homeownership | 22% |
| Client stopped communication | 17% |

* A number of clients were already participating in existing financial capability services at the time the program started, resulting in a higher than expected number of clients moving onto homeownership within the first year of the Homeownership Capacity program.

^ This information will be updated if and when the client purchases a home.

The second program year started October 1, 2015 with the goal of serving 580 households. Within the first three quarters of the program year, 493 new clients (85% of the total goal) have started receiving Homeownership Capacity services.

Minnesota Housing collects quarterly reports from Homeownership Capacity providers. Staff will provide intake and outcome updates to correspond with the submission of those reports in December 2016.