Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

AGENDA
Minnesota Housing Board Meeting
Thursday, August 25, 2016
1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of July 28, 2016
5. **Reports**
   A. Chair
   B. Commissioner
   C. Finance and Audit Committee Meeting of August 25, 2016
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
7. **Action Items**
   A. Affordable Housing Plan Amendment, Home Mortgage Programs
   B. Selection and Commitment, HOME Investment Partnerships (HOME) and Preservation Affordable Housing Investment Fund (PARIF) Programs
      - Riverview Apartments and Hilltop Villas, Sebeka, D7858
   C. Selection and Commitment, HOME Investment Partnerships (HOME) and Preservation Affordable Housing Investment Fund (PARIF) Programs
      - Jordan Towers II Apartments, Red Wing , D1194
   D. Commitment, Low and Moderate Income Rental (LMIR) Program
      - 1st Avenue Flats, Rochester, D7872
8. **Discussion Items**
   A. Draft 2017 Affordable Housing Plan
   B. Draft 2017-2021 Consolidated Plan
   C. Report on Manufactured Housing
9. **Informational Items**
   A. Report of Complaints Received by Agency or Chief Risk Officer
   B. 2016 Affordable Housing Plan and 2016-19 Strategic Plan: Third Quarter Progress Report
   C. Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2016
   D. Post-Sale Report, Homeownership Finance Bonds, 2016 Series C and D
10. **Other Business**
    None.
11. **Adjournment**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, July 28, 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, Ramona Advani (Proxy for Rebecca Otto). Terri Thao was absent.
Minnesota Housing staff present: Tal Anderson, Wes Butler, Kevin Carpenter, Jessica Deegan, Ruth DuBose, Jim Finc, Kay Finke, Rachel Franco, Shannon Gerving, Lori Gooden, Anne Heitlinger, Kasey Kier, Diana Lund, Nira Ly, Eric Mattson, Tom O'Hern, John Patterson, Tony Peleska, Kirby Pitman, William Price, Paula Rindels, Megan Sanders, Becky Schack, Kayla Schuchman, Anne Smetak, Barb Sporlein, Kim Stuart, Susan Thompson, Will Thompson, Mary Tingerthal, Katie Topinka.
Others present: Chip Halbach, Minnesota Housing Partnership; Paul Rebholz, Wells Fargo; Michelle Adams, Kutak Rock (by phone).
3. **Agenda Review**
Chair DeCramer announced there were no changes to the agenda.
4. **Approval of the Minutes.**
A. Regular Meeting of June 23, 2016
Joe Johnson moved approval of the minutes as written. Stephanie Klinzing seconded the motion. Motion carries 4-1, with Ramona Advani abstaining.
5. **Reports**
A. Chair
There was no report from the Chair.
B. Commissioner
Commissioner Tingerthal announced the August board meeting would be preceded by a Finance and Audit Committee meeting at which the results of the annual financial audit would be presented. Commissioner Tingerthal also announced there may be a Program and Policy Committee meeting in early September to review public comments on the Affordable Housing Plan (AHP). The Affordable Housing Plan will be published in draft form in August and the public comment period closes the day following the August board meeting. Commissioner Tingerthal added that if there are substantive public comments or substantive changes, a special meeting or committee meeting will occur prior to bringing the AHP to the board for approval in September.

Regarding a special legislative session, Commissioner Tingerthal stated that it is believed that if there is to be a special session, it would be held following the August 9 primary.

Commissioner Tingerthal updated the board on the status of recruitment for the vacant position, stating she has been working on recruitment but several candidates have indicated they are too busy. Commissioner Tingerthal also shared that member Stephanie Klinzing has been appointed to the State's Board on Aging and will serve as the primary housing ambassador to that board.

Regarding requests for tax exempt bonds, Commissioner Tingerthal stated the Agency is seeing an unprecedented amount of demand. The housing bonding pool will open on Monday, August 1 and there are enough proposals in the queue to exhaust all available dollars for the first time in a number of years. Agency staff continues to examine the implications of this demand on 4% tax credits that are available with tax exempt bonds. There is continuing concern regarding the scarcity of bonding authority and there may be some policy implications due to that scarcity.

The following employee introductions were made:

- John Patterson introduced Kirby Pitman, Research Specialist. Ms. Pitman worked for the Agency during the late 1990s and most recently was employed with Minnesota Management and Budget in their management analysis division.
- Debbi Larson introduced Rachel LeBlanc, who has filled a vacancy in the accounting department resulting from an internal promotion. Ms. LeBlanc was previously employed in the accounting department of the Minnesota Department of Corrections.
- Kaye Finke introduced Jim Finc, associate developer in BTS providing support to Access and Excel applications. Mr. Finc was previously employed in the private sector as developer supporting Access applications.

C. Committee.

None.

6. Consent Agenda

A. Approval, Section 811 (Round 1) Program Rental Assistance Contract - Commerce Apartments, Saint Paul, D6264

B. Commitment, Low and Moderate Income Rental (LMIR) Program - Creeks Run Townhomes Phase II, Chaska, D7861

C. Amendment to Headwaters Regional Development Commission (HRDC) 2015 Community Homeownership Impact Fund Award and Approval of Corresponding Community Fix Up Loan Program Initiative Allocation Increase

MOTION: Joe Johnson moved approval of the consent agenda and adoption of Resolutions No. MHFA 16-030 and 16-031. Stephanie Klinzing seconded the motion. Motion carries 5-0.

7. Action Items

A. Resolution Relating to State Appropriation Bonds (Housing Infrastructure); Authorizing the Issuance and Sale of Additional Series and Approving the Execution and Delivery of Related Documents; Authorization of Additional Developments to be Funded with Proceeds of Prior Series

Kevin Carpenter requested approval $10 million in Housing Infrastructure Bonds, stating the bonds were authorized by the legislature in 2014. Mr. Carpenter also requested approval to add new projects to the slate of projects that could receive proceeds from these bonds. Mr. Carpenter stated it was anticipated that $25 million of bonds would be sold in mid to late August and $2 million to $3 million in authorized and uncommitted capacity would remain following the sale.

Michelle Adams of Kutak Rock provided a summary of the resolution and described the parameters, stating the bonds are repaid through legislative appropriations and do not commit Agency funds for repayment. Ms. Adams stated the purpose of the bonds is to finance loans to borrowers of the approved development and the board would be authorizing four additional developments as part of the requested action. Ms. Adams stated that authorized officers of the Agency are permitted to determine if loans funded by the bonds may be forgiven. The bonds will be sold to RBC Capital Markets, Piper Jaffray, and Wells Fargo and are issued pursuant to a 2013 trust indenture. Ms. Adams stated there will be a supplemental indenture and continuing disclosure by the State and by the Agency. The bonds would be issued on a not-to-exceed basis with a maximum principal of $10 million, an interest rate not-to-exceed 5%, a maturity not-to-exceed August 1, 2038, debt service not-to-exceed $800,000 annually, and fee to purchaser capped at 1% of the series bonds issued. Ms.

Adams stated that authorized officers of the Agency have discretion regarding the number of bonds, the series of bonds, and the aggregate principal of the bonds. **MOTION:** Stephanie Klinzing moved approval of this request and the adoption of Resolution No. MHFA 16-029. Craig Klausing seconded the motion. Motion carries 5-1.

B. Approval, Selections, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)

Ruth DuBose requested approval of funding recommendations under the Enhanced Financial Capacity Homeownership Initiative, also known as the Homeownership Capacity Initiative. Ms. DuBose stated 890 households have participated in the program, with 50% of the 218 households that have exited the program reporting having purchased a home.

Ms. DuBose stated 16 applications were received for the 2017 program year and 13 applications are being recommended for funding, with four serving Greater Minnesota. Eight of the applicants were previously funded. Ms. DuBose also requested funding to bring NeighborWorks America trainings to Minnesota. The funding will allow 35 participants in each certification training, which will be hosted by Bremer Bank in Lake Elmo. The trainings include financial capability and post-purchase training and will benefit organizations around the state that would like to offer those service. The training was offered in Minnesota for the first time last summer and was very well received. Four applicants in the current funding round participated in that training. Finally, Ms. DuBose requested approval of an incentive fund and delegation of authority to the Commissioner to approve award modifications to receive incentive funding. Ms. DuBose stated the incentive funding program is similar to an incentive program approved by the board for the Impact Fund, which has proved very successful. The Homeownership Capacity incentive funding will allow up to an additional $25,000 per grantee to serve additional households.

Joe Johnson inquired about the households that have not yet exited the program and Ms. DuBose stated that households may participate in the program for up to three years.

Craig Klausing inquired if there is a control group to determine how many households would purchase a home without participation in the program. Ms. DuBose responded that staff would explore use of a control group when conducting the program review. Mr. Klausing also stated the resolution allows an extension funding beyond the program funding period. Commissioner Tingerthal responded that funding would not be provided beyond the program end date.

John DeCramer inquired how long the certification obtained through NeighborWorks would last and Ms. DuBose responded that the certification lasts three years and there are continuing education requirements to retain certification.

Ramona Advani requested clarification regarding the benefit and driver for the delegation of authority to the commissioner for incentive funding. Tom O'Hern responded that the intent of the delegation is to make life easier for the board and that it gives the commissioner the authority to provide timely approval of incentive funding that otherwise would require approval by the board at its regularly scheduled meetings. Mr. O'Hern added that there is a safeguard in place because the delegation requires a report of annual actions taken. Ms. Advani inquired if there was a timing consideration for actions that would be hampered by the board meeting schedule and Mr. O'Hern responded that the timing of meetings is a consideration in addition to the desire to simplify the process.

Stephanie Klinzing inquired about the extent of the reporting that would be done following the end of the three-year pilot. Ms. DuBose responded that information is collected at participant intake and this information, which includes credit reports, balances on collection accounts, balances on savings, payments on rent, and household income, is updated every six months. The reporting will also include outcomes and, for participants who have purchased a home, will include what they purchased, their monthly payment, and the purchase products used. For those who did not purchase a home, the reasons will be collected. Ms. DuBose stated there are some standards and measures in place, but it is too early in the pilot to complete reporting of this type.

Commissioner Tingerthal stated that some of the initial outcome data that Ms. DuBose referenced, such as participants enrolled, program exits, and initial outcomes, are now being reported to the board quarterly. **MOTION:** Joe Johnson moved approval of the funding recommendations and adoption of Resolution No. MHFA 16-032. Craig Klausing seconded the motion. Motion carries 5-0.

C. 2016 Allocation Plan for National Housing Trust Fund

Jessica Deegan requested approval of the first National Housing Trust Fund (NHTF) allocation plan for the State of Minnesota and approval of a substantial amendment to the Consolidated Plan and Annual Action Plan. Ms. Deegan stated the board approved the concept for the National Housing Trust Fund during 2015 and approved the program guide in April. Minnesota's allocation of resources for 2016 is $3 million and the funds will be used to develop affordable housing for the lowest income households, with all funds targeted to households at 30% or less of area median income. The allocation will be awarded through the current Consolidated Request for Proposals to fund up to 22 rental units and up to one third of the funds will be set aside to provide operating support.

Ms. Deegan provided highlights of the plan and staff responses to public comments. Ms. Deegan stated there were four themes to the public comments and included strategic priorities applicable to the program and geographic diversity. Ms. Deegan stated the Agency is committed to a balanced approach of investing in higher opportunity communities without existing affordable housing as well as communities that have undergone disinvestment. Ms. Deegan stated that, based on public comment, the Agency has made explicit changes to the allocation plan to include the requirement that housing providers receiving NHTF resources carry out an affirmative marketing program based on comments regarding the integration of fair housing policies. Ms. Deegan added that the Consolidated RFP application already includes language that incorporates affirmative fair housing marketing regulations and the Agency recently released tenant selection plan guidance to the owners and developers of Agency funded properties that stresses fair housing concerns and includes a focus on recent HUD guidance on criminal background screening.

Craig Klausing inquired about comments regarding evaluating impacts or determining if policies perpetuate segregation or affirmatively further fair housing and inquired about the difference between prohibitions and monitoring compliance. Ms. Deegan responded that staff evaluate proposals based on the regulations and it is embedded in the Agency's process to evaluate demographic and geographic characteristics to determine how new developments may impact concentrations, integration, or segregation, adding that the affirmatively furthering fair housing rule is a fairly new regulation and the Agency has discussed balancing geographically while using characteristics like economic integration in the context of how funds are distributed. Ms. Deegan added that the definition of "concentration" is fairly open in the regulation and the Agency has adopted HUD's definition of Racially or Ethnically Concentrated Areas of Poverty (R/ECAP), generally where 40% of the Census Tract population is of color or Hispanic Ethnicity.

Stephanie Klinzing stated it is good to have discussions to keep things in perspective and it is important to ensure the Agency is optimizing the use of its financial resources while looking at where the investments are being placed geographically. Ms. Klinzing stated she believed the Agency was using a balanced approach and expressed her appreciation for the approach that has been taken. Mr. Klausing thanked Ms. Klinzing for her comments and agreed that, while the Trust Fund resources are a small amount of money, it is important to have these important discussions about where affordable housing is placed. **MOTION:** Stephanie Klinzing moved approval of the National Housing Trust Fund allocation plan for the State of Minnesota and the substantial amendment to the Consolidated Plan and Annual Action Plan. Craig Klausing seconded the motion. Motion carries 5-0.

8. Discussion Items

None.

9. Informational Items

None.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 1:45 p.m.

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Minnesota Housing Finance Agency

Board Agenda Item: 6.A
Date: 8/25/2016

Item: Grandview Apartments, Morris, D7810

Staff Contact(s):
Carrie Weisman, 651.296.3789, carrie.weisman@state.mn.us
David Schluchter, 651.296.8161, david.schluchter@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff requests the board adoption of a resolution authorizing a modification to increase the Publicly Owned Housing Program (POHP) loan commitment to $1,070,686.

Fiscal Impact:
The requested modification will be funded using a 2016 Affordable Housing Plan budgeted carryforward of $1,300,378 of unobligated 2014 General Obligation (GO) bond funds.

Meeting Agency Priorities: select all that apply
☒ 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
- Resolution

On February 19, 2015, Minnesota Housing board members selected the development, Grandview Apartments, Morris, for an $898,000 Publicly Owned Housing Program (POHP) loan utilizing General Obligation (GO) Bond proceeds as authorized by the 2014 Legislature.

The following summarizes the changes in the composition of the proposal since that time:

Description:	**Selection**	**Current**	**Variance**
Total Development Cost	$ 1,039,345	$ 1,317,737	$ 278,392
Total Construction Cost (including contingency)	$ 864,359	$ 1,219,127	$ 285,620
Agency Sources			
POHP	$ 898,000	$ 1,070,686	$ 172,686
Non-Agency Sources			
Morris HRA	$ 141,345	$ 171,959	$ 30,614
Stevens County SCEIC loan	$ 0	$ 75,092	$ 75,092
Total Sources	$ 1,039,345	$ 1,317,737	$ 278,392

Due to the extensive nature of the rehabilitation and environmental issues discovered after selection, the total development costs have increased by $278,392 (27%). The proposed modification increases the POHP loan commitment from $898,000 to $1,070,686 (19%). The remainder of the increase will be funded by a loan obtained since selection from Stevens County Economic Improvement Commission and additional Morris HRA capital funds and reserves.

The proposed funding modification results in a 19% increase of the originally committed POHP loan amount. Deferred loan funding modifications that equal or exceed 15% of the originally committed loan amount require board approval.

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

RESOLUTION NO. MHFA 16-
Modifying Resolution No. MHFA 15-005

RESOLUTION APPROVING MORTGAGE COMMITMENT MODIFICATION
PUBLICLY OWNED HOUSING PROGRAM (POHP)

WHEREAS, the Minnesota Housing Finance Agency Board (“Board”), at its February 19, 2015, meeting, previously authorized a commitment for the development hereinafter named by its Resolution 15-005; and

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment on the development noted below and hereby confirms the renewal of said commitment, subject to any revisions noted:

1. Grandview Apartments, D7810, M16983: The amount of the Publicly Owned Housing Program funding commitment shall be increased from $898,000 to $1,070,686;

2. All other provisions of Resolution 15-005 remain unchanged.

Adopted this 25th day of August 2016.

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CHAIRMAN

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Board Agenda Item: 6.B
Date: 8/25/2016

Item: Selection/Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Renewal-Minnesota AIDS Project (D3621)

Staff Contact(s):
Elaine Vollbrecht, 651.296.9953, elaine.vollbrecht@state.mn.us

Request Type:

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

Summary of Request:
Agency staff recommends the adoption of a resolution approving $149,130 for funding under the Housing Opportunities for Persons with AIDS Program (HOPWA) for the Minnesota AIDS Project (MAP).

Fiscal Impact:
The Agency will receive a fee of 3% ($4,612) for the administration of this program.

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
- Resolution

Minnesota Housing is the grantee for the HOPWA state of Minnesota formula funds, appropriated annually by the Department of Housing and Urban Development (HUD). HUD HOPWA funds are distributed under a statutory formula that is based on AIDS surveillance information (cumulative AIDS cases and area incidence) from the Centers for Disease Control and Prevention.

The state HOPWA formula funds serve greater Minnesota, outside of the 13 county Eligible Metropolitan Statistical Area (EMSA). Low-income persons (at or below 80 percent of area median income [AMI]) that are medically diagnosed with HIV/AIDS, together with their families, are eligible to receive HOPWA assistance.

The amount received by Minnesota Housing for program use in FY 2017 is $153,742, of which $149,130 is available for funding. The remaining three percent is applied toward Agency administrative expenses. The Minnesota HIV Housing Coalition has established the funding priorities for the HOPWA Program, which includes priority for the renewal and sustainability of existing programs. Due to the limited amount of funding, the opportunity to apply for these funds was open only to the current grantee, MAP. Minnesota Housing posted application materials in June 2016 and received an application from MAP requesting $149,130 to renew and administer the funds from October 1, 2016 to September 30, 2017.

MAP has administered HOPWA funds throughout greater Minnesota since 2001, serving households in 44 of 76 Greater Minnesota counties in FY 2016. MAP works collaboratively with a variety of community organizations and receives referrals from Rural AIDS Action Network, Mayo HIV Clinic, Minnekota Health Project and Minnesota AIDS Project - Duluth. Funds are available to eligible persons as short-term and emergency assistance for rental, mortgage and utility payments (STRMU). Due to the limited funding available, MAP distributes its emergency assistance through a lottery based on referrals from the service providers, with restrictions on the funding amount and number of times the funding can be accessed. MAP assisted 156 households with STRMU in FY2016, with 81 percent of the assisted households at income levels below 50 percent AMI, and 60 percent of the assisted households at income levels below 30 percent AMI. In FY 2017, MAP anticipates serving approximately 150 individuals living with HIV/AIDS and their family members.

MAP has noted an increase in the number of HIV positive individuals living in Greater Minnesota who are accessing services. The costs of rent, mortgage payments and utilities continued to rise in the last year, leaving households living with HIV/AIDS at risk for ongoing emergency needs. Participants in Greater Minnesota often experience difficulty in obtaining long-term rental subsidies.

Staff has completed its review of the proposal and recommends approval.

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

RESOLUTION NO. MHFA 16-

RESOLUTION APPROVING SELECTION/AUTHORIZATION TO FUND HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA) GRANT

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide funds for a HOPWA Short-Term Rent, Mortgage and Utility (STRMU) assistance program for low-income persons that are medically diagnosed with HIV/AIDS.

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into a grant agreement using federal resources as set forth below, subject to changes allowable under the HUD HOPWA Program, upon the following conditions:

1. Agency staff shall review and approve the following Grantee the total recommended amount for one year;

Minnesota AIDS Project	D3621	$ 149,130

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

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

Adopted this 25th day of August, 2016.

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CHAIRMAN

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Board Agenda Item: 7.A
Date: 8/25/2016

Item: Affordable Housing Plan Amendment, Home Mortgage Programs

Staff Contact(s):
Laura Bolstad, 651.296.6346, laura.bolstad@state.mn.us

Request Type:

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

Summary of Request:
Due to strong production, staff requests that the board approve additional funding under the 2016 Affordable Housing Plan (AHP) for the Home Mortgage Programs.

Fiscal Impact:
The change increases net funding by $80 million for the Home Mortgage Programs under the 2016 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):
- Summary of Recommendation

Summary of Recommendation:

Increase to Home Mortgage Programs Funding for 2016 AHP

The Home Mortgage Programs, which include Start Up, Step Up and MCC with First Mortgage, provide first mortgage financing to first time, repeat and refinance borrowers. After a strong start to the year, home mortgage production has slowed in calendar year 2016 but is still expected to exceed the amount budgeted for the 2016 AHP year. As a result, staff requests an increase to the AHP budget for the Home Mortgage Programs of $80 million, as outlined in Table 1.The Agency uses a mix of Mortgage Revenue Bond and secondary market sales to fund the loans purchased under these programs. The additional requested funds would come either from bonding or secondary market sales, based on best execution at the time funds are required. Furthermore, the higher loan production would increase Agency-generated revenue.

Table 1: Summary of 2016 AHP Funding Changes

Program	Current AHP Allocation	Revised AHP Allocation	Change
Home Mortgage Programs	$ 510,000,000	$ 590,000,000	$ 80,000,000

Minnesota Housing Finance Agency

Board Agenda Item: 7.B
Date: 8/25/2016

Item: Riverview Apartments and Hilltop Villas, Sebeka, D7858

Staff Contact(s):
Karin Todd, 651.296.6529, karin.todd@state.mn.us

Request Type:

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

Summary of Request:
Agency staff has completed the initial underwriting and technical review of the development and requests approval of the adoption of a resolution authorizing the selection and commitment in the amount of up to $810,360 under the Preservation Affordable Rental Investment Fund (PARIF) program and up to $1,403,000 under the HOME Investment Partnerships (HOME) program, subject to the review and approval of the Mortgagor and the terms and conditions of the Agency mortgage loan commitment.

Fiscal Impact:
The 2016 Affordable Housing Plan (AHP) includes $9.9 million for new preservation activity under the PARIF program and $7.8 million for new activity under the HOME program. The PARIF loan will be funded through state appropriations and will not have any fiscal impact on the Agency's financial condition. The HOME loan will be funded through federal appropriations. The loans will be made at terms consistent with what is described in 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
- Development Summary
- Resolution

Minnesota Housing staff received this request as a pipeline application in April 2016. Riverview Apartments and Hilltop Villa, located in Sebeka, Minnesota, will be acquired and rehabilitated by an affiliate of D.W. Jones, Inc. Riverview Apartments and Hilltop Villas currently operate as separate properties. They will be consolidated through this transaction and operate as one scattered-site development.

The properties were originally financed by USDA – Rural Development's Section 515 mortgage program. Both properties have amortizing mortgages that will mature within the next two years. If the mortgages mature, the 24 units of existing project-based rental assistance will not be renewed or extended. Most urgently, the mortgage at Riverview Apartments had a June 22, 2016 maturity date. The current owner, a nonprofit board, indicated they do not have the capacity to rehabilitate and continue to own the housing. They intend to sell the properties to the proposed borrower so the affordable housing can be preserved.

Processing this application on a pipeline basis allows D.W. Jones to take immediate action on behalf of the nonprofit owner to preserve the properties and maintain the rental assistance. To date, Rural Development has approved the temporary forbearance of the Section 515 loan at Riverview Apartments to give D.W. Jones time to submit a consolidation application prior to the mortgage maturing. As part of the consolidation process, D.W. Jones will request to have the term of the Section 515 mortgages extended for 30 years and re-amortized for 50 years.

Staff is requesting approval of up to an $810,360 PARIF loan and up to a $1,403,000 HOME loan. Staff anticipates an existing $112,109 PARIF loan will be repaid as part of this transaction.

DEVELOPMENT SUMMARY

DEVELOPMENT:

					D7858
Name:	Riverview Apartments and Hilltop Villas			App#:	M17393
Address:	17 Hubbard Ave S				
City:	Sebeka	County:	Wadena	Region:	CMIF

MORTGAGOR:

Ownership Entity: Sebeka Housing LLLP
General Partner/Principals: D.W. Jones, Inc.

DEVELOPMENT TEAM:

General Contractor:	Voronyak Builders Inc, Burtrum
Architect:	Lucachick Architecture Inc., Bemidji
Attorney:	Gammello, Qualley, Pearson & Mallak, PLLC, Baxter
Management Company:	D.W. Jones Management Inc., Walker
Service Provider:	N/A

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 810,360 MHFA PARIF
Funding Source: Preservation ARIF
Interest Rate: 0.00%
Term (Years): 30

$ 1,403,000 MHFA HOME
Funding Source: HOME MF
Interest Rate: 0%
Term (Years): 30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
2BR	6	802	$ 684	$ 862	$ 27,360
2BR	10	808	$ 716	$ 862	$ 28,640
1BR	6	640	$ 622	$ 718	$ 24,880
2BR	2	808	$ 716	$ 862	$ 28,640
1BR	8	612	$ 638	$ 718	$ 25,520
TOTAL	32				

***Twenty-eight of the units will benefit from project-based rental assistance provided by Rural Development, ensuring that residents pay no more than 30 percent of their income toward rent. Rental assistance can float among the units as needed.

Purpose:
Riverview Apartments and Hilltop Villas, two existing Rural Development properties located in Sebeka, Minnesota, will be consolidated, acquired and rehabilitated by an affiliate of D.W. Jones, Inc. The properties have a total of 32 units, including a mix of one and two bedroom units. Twenty-four units currently have rental assistance through USDA-Rural Development. Rural Development intends to allocate an additional four units of rental assistance to the project.

Staff is requesting approval of up to an $810,360 PARIF loan and up to a $1,403,000 HOME loan to fund the acquisition and rehabilitation of the properties. Staff anticipates an existing $112,109 PARIF loan from Minnesota Housing will be repaid as part of this transaction.

Population Served:
Households will have incomes at or below 60 percent of the Multifamily Tax Subsidy Project (MTSP) limits, with the exception of one employee unit that will be unrestricted. Approximately 22 of the units will be designated as HOME-assisted units with deeper incomes restrictions at or below 50 percent of the area median income.

Project Feasibility:
The development is feasible as proposed. Minnesota Housing will loan the development up to a $1,403,000 HOME loan and up to an $810,360 PARIF loan. Other sources of funding include a $21,797 Section 515 amortizing mortgage, an existing $162,018 HOME loan from Minnesota Housing, $130,000 in transferred reserves, and a $3,500 energy rebate.

Development Team Capacity:
D.W. Jones, Inc. is the managing member of the new ownership entity and will act as the developer. D.W. Jones owns more than 1,200 units of affordable housing and has rehabilitated over 415 units that are of a similar size and scope as the proposed development. D.W. Jones has sufficient expertise and capacity to complete the acquisition and rehabilitation on time and within budget.

D.W. Jones Management will continue to provide property management services at the development. D.W. Jones Management was established in 1989 and currently has over 2,700 units in its portfolio. The portfolio consists of properties with low-income housing tax credits, HOME, rural development rental assistance, Section 8 rental assistance and market rate units. D.W. Jones Management has experience with Minnesota Housing financing and reporting requirements.

Physical and Technical Review:
Riverview Apartments was built in 1976 and Hilltop Villas was built in 1968. The developments include a mix of one- and two- bedroom units in two-story buildings.

The proposed renovation includes unit interior upgrades (kitchens, bathrooms, flooring and lighting), accessibility upgrades, mechanical equipment replacement, façade upgrades, roof insulation, window replacement, the addition of a play set and other site improvements.

The budgeted Total Development Cost (TDC) is $79,084 per unit, which is 25 percent below the predictive model estimate of $105,906 per unit.

Market Feasibility:
Riverview Apartments and Hilltop Villas are existing developments with an average occupancy rate of 93 percent. Other affordable and market rate properties in the primary market area also have low rental vacancy levels. Twenty four of the units currently benefit from project-based rental assistance provided by Rural Development. Rural Development intends to allocate an additional four units of rental assistance to the properties, which should lower the average vacancy rate.

Supportive Housing:
Not Applicable

DEVELOPMENT COST SUMMARY (estimated):

	Total	Per Unit
Total Development Cost	$ 2,530,675	$ 79,084
Acquisition or Refinance Cost	$ 525,924	$ 16,435
Gross Construction Cost	$ 1,489,600	$ 46,550
Soft Costs (excluding Reserves)	$ 415,151	$ 12,974
Reserves	$ 100,000	$ 3,125
Agency Deferred Loan Sources		
MHFA PARIF	$ 810,360	$ 25,324
MHFA HOME - New	$ 1,403,000	$ 43,844
MHFA HOME – Existing	$ 162,018	$ 5,063
Total Agency Sources	$ 2,375,378	$ 74,231
Total Loan-to-Cost Ratio	94%	
Other Non-Agency Sources		
Energy Rebates	$ 3,500	$ 109
Existing RD Reserves & Funds from Operations	$ 130,000	$ 4,063
First Mortgage	$ 21,797	$ 681
Total Non-Agency Sources	$ 155,297	$ 4,853

Agenda Item: 7.B.
Resolution

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

RESOLUTION NO. MHFA 16-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) PROGRAM
HOME INVESTEMENT PARTNERSHIPS (HOME) PROGRAM

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

Name of Development:	Riverview Apartments and Hilltop Villas
Owner/Mortgagor:	Sebeka Housing LLLP
Sponsor:	D.W. Jones, Inc.
Location of Development:	Sebeka
Number of Units:	32
Estimated Total Development Cost:	$2,530,675
Amount of PARIF Loan:	$810,360
Amount of HOME loan:	$1,403,000

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

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide construction and permanent mortgage loans to said applicant from PARIF program funds and HOME program funds for the indicated development, upon the following terms and conditions:

1. The amount of the PARIF loan shall be up to $810,360; and

2. The terms of the PARIF loan shall be 0 percent interest and have a maturity date that is co-terminus with the Development's first mortgage; and

3. The amount of the HOME loan shall be up to $1,403,000; and

4. The terms of the HOME loan shall be 0 percent interest and have a maturity date that is co-terminus with the Development's first mortgage; and

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

6. The Mortgagor shall execute an Agency Mortgage Loan Commitment for the HOME loan and PARIF loan with terms and conditions embodying the above in form and substance acceptable to Agency staff, and the closing of the loans shall occur no later than 20 months from the adoption date of this Resolution; and

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

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

Adopted this 25th day of August, 2016.

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CHAIRMAN

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Board Agenda Item: 7.C
Date: 8/25/2016

Item: Jordan Towers II, Red Wing, D1194

Staff Contact(s):
Paul Marzynski, 651.296.3797, paul.marzynski@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Agency staff recommends the adoption of a resolution authorizing the issuance of a HOME Investment Partnerships (HOME) program commitment in the amount of $3,000,000 and a Preservation Affordable Rental Investment Fund (PARIF) program commitment of approximately $731,000. Both loans are subject to the review and approval of the Mortgagor and the terms and conditions of the Agency mortgage loan commitment.

Fiscal Impact:
The 2016 Affordable Housing Plan (AHP) includes $9.9 million for new preservation activity under the PARIF program and $7.8 million for new activity under the HOME program. The PARIF loan will be funded through state appropriations and will generate approximately $400,000 in interest income to the Agency over the 15 year term. The HOME loan will be funded through federal appropriations.

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
- Development Summary
- Resolution

In April 2016, Minnesota Housing staff received a financing request submitted as a pipeline application for Jordan Towers II, a senior project-based Section 8 property in Red Wing, Minnesota. The request meets the Preservation Threshold Requirements under the Risk of Loss due to Critical Physical Needs. The funding proposal will preserve 102 units of federal project-based rental assistance (HAP contract).

Constructed in 1979, Jordan Towers II is an eight-story, elevator building containing 104 residential units. The property is owned and operated by the Red Wing Housing and Redevelopment Authority (Red Wing HRA). The property has been meeting an important housing need by providing affordable apartments to low-income seniors in Red Wing for the past 37 years. The property has historically operated with an average occupancy over 98 percent, but excess cash flow to fund property reserves has been limited due to the burden of the first mortgage debt service.

The property was originally financed with General Obligation tax-exempt bonds, which will be fully amortized and paid off by 2022. Beginning in 2022, Jordan Towers II will benefit from the elimination of its first mortgage debt service, which will create an additional $239,100 per year in cash flow. With this new surplus cash flow, the property will operate well in excess of breakeven and will have the capacity to begin repayment of a portion of its deferred debt obligations.

Staff is requesting approval of a new $3,000,000 HOME loan and a new $731,000 PARIF loan. Proceeds from the HOME and PARIF loans will fund over $3.3 million in capital improvements, including over $2 million needed to immediately address critical physical needs repairs regarding health and safety issues. The Red Wing HRA has indicated they do not have the financial capacity to fund these critical repairs, so without the Red Wing HRA taking action to immediately address the critical physical needs, there is a risk that the rental assistance at Jordan Towers II could be lost.

Staff also recommends that the $731,000 PARIF loan be structured as an interest bearing note with amortizing debt service payments that will begin in 2022. Based on the 15-year cash flow projections, Jordan Towers II would maintain a debt coverage ratio in excess of 2.0 during the amortization period of the new PARIF loan.

The current HAP contract runs through March 2024. Minnesota Housing will require the Red Wing HRA to continuously renew the HAP contract throughout the 20 year term of the new HOME loan.

DEVELOPMENT SUMMARY

DEVELOPMENT:

Name:	Jordan Tower II			D1194	
Address:	428 5th St W			App#:	M17377
City:	Red Wing	County:	Goodhue	Region:	SEMIF

MORTGAGOR:

Ownership Entity:	Red Wing Housing and Redevelopment Authority
General Partner/Principals:	Red Wing Housing and Redevelopment Authority

DEVELOPMENT TEAM:

General Contractor:	TBD
Architect:	Finn Daniels Architects
Attorney:	Vogel & Gorman PLC
Management Company:	Red Wing Housing and Redevelopment Authority
Service Provider:	N/A

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 3,000,000	HOME Loan	
	Funding Source:	HOME Investment Partnership (HOME)
	Interest Rate:	0.00%
	Term (Years):	20
$ 731,000	PARIF	
	Funding Source:	Preservation Affordable Rental Investment Fund (PARIF)
	Interest Rate:	4.50%
	Term (Years):	15
	Year 1 – 5	Interest accrues
	Year 6 -15	Fully amortizes

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
2BR	5	895	$755		$30,200
2BR	1	830	$755		$30,200
1BR	96	578	$655		$26,200
0BR/SRO	1	312	$385	-	$15,400
0BR/SRO	1	312	$285	-	$11,400
TOTAL	104				

NOTES: The 102 units one and two bedroom units have project-based Section 8 rental assistance ensuring that residents pay no more than 30% of their income toward rent.

Purpose:
Jordan Towers II is an eight-story, elevator building containing 104 residential units. Constructed in 1979, Jordan Towers II has been operating as senior apartments under a federal project-based HAP contract for 102 units. The funding request is needed to make multiple repairs regarding health and safety issues that, if not immediately addressed, may threaten the continued viability of the 102 HAP contract units. The funding request meets the Agency's preservation strategic priority, and the development serves an important policy goal of the preservation of federally assisted housing. This funding proposal will ensure that Jordan Towers II will continue to be a viable affordable housing option for very low income seniors for the next 20 years.

Staff recommends approval of a new $731,000 PARIF and a $3,000,000 HOME loan to fund the critical physical needs and other capital repairs.

Population Served:
Jordan Towers II has been filling a housing need in Red Wing by providing 104 units of affordable housing for very low income seniors and persons with disabilities. Under the Section 8 HAP contract, tenants contribute only 30 percent of their income toward rent. The two market rate units at the property have rents set well below fair market rent levels.

Project Feasibility:
The development is feasible as proposed. Minnesota Housing will loan the Red Wing HRA a HOME Investment Partnerships (HOME) program commitment in the amount of $3,000,000 and a Preservation Affordable Rental Investment Fund (PARIF) program commitment of approximately $731,000. The proposed funding will address critical repairs issues that will help preserve the physical asset over the term of the agency loans. The property has historically had high occupancy levels indicating a strong demand for affordable senior housing in Red Wing. Operating cash flows will dramatically improve in 2022 when the first mortgage bonds have been fully amortized and paid off.

Development Team Capacity:
Red Wing HRA has previous experience with Minnesota Housing, having received funds for various affordable housing projects in Red Wing, including an Agency POHP loan for the rehabilitation of Jordan Towers I, a public housing project adjacent to Jordan Towers II that is also owned and operated by the Red Wing HRA.

Finn Daniels Architects is the architect for the development. Staff reports Finn Daniels as an experienced and qualified architect, having recently completed the rehabilitation of Jordan Towers I.

Physical and Technical Review:
Jordan Towers II is an eight-story building containing two market-rate studio units, 96 one-bedroom units, and six two-bedroom units. The building contains an on-site commercial kitchen facility and 10,000 sq. ft. of community/activity space that provides meals and services to tenants of Jordan Towers II and the surrounding area. The project is located in the center of the Red Wing downtown area. The property underwent a modest renovation in 2004, which was funded by a $1 million HOME loan.

The proposed funding will address critical physical needs that include: replacement of inoperable/failing windows, correcting and bringing up to date fire code issues, repairing deteriorated concrete at balconies, and addressing asbestos abatement. Non-critical repairs to be made include: roof repairs, tuck pointing on the brick veneer exterior, replacement of bathroom plumbing fixtures and vanities, and repair of old deteriorating sewer lines. The proposed funding for the repairs and renovation, along with the funding of replacement reserves, will ensure that the physical asset can be properly maintained over the term of the agency loans.

The budgeted Total Development Cost (TDC) is $37,808 per unit, which is 47% below the predictive model estimate of $71,386 per unit.

Market Feasibility:
Jordan Towers II has historically averaged between 98-100% occupancy. There are limited affordable housing options available for senior in the Red Wing area. Other affordable independent senior properties in the market area also have low vacancy levels and report that their units are in strong demand. The benefit of the project-based Section 8 contract ensures the continued long-term affordability at Jordan Towers II.

Supportive Housing:
Not Applicable

DEVELOPMENT COST SUMMARY (estimated):

	Total	Per Unit
Total Development Cost	$ 3,932,031	$ 37,808
Acquisition or Refinance Cost	$ 0	$ 0
Gross Construction Cost	$ 3,621,642	$ 34,823
Soft Costs (excluding Reserves)	$ 310,389	$ 2,985
Reserves	$ 0	$ 0
Agency Deferred Loan Sources		
HOME Loan	$ 3,000,000	$ 28,846
PARIF	$ 730,876	$ 7,028
Total Agency Sources	$ 3,730,876	$ 35,874
Total Loan-to-Cost Ratio	95%	
Non-Agency Sources		
Jordan Tower II Unrestricted Reserves	$ 201,155	$ 1,934

Agenda Item: 7.C
Resolution

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

RESOLUTION NO. MHFA 16-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) PROGRAM
HOME INVESTMENT PARTNERSHIPS (HOME) PROGRAM

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

Name of Development:	Jordan Towers II
Owner/Mortgagor:	The Housing and Redevelopment Authority of Red Wing
Sponsor:	The Housing and Redevelopment Authority of Red Wing
Location of Development:	Red Wing, Minnesota
Number of Units:	104
Estimated Total Development Cost:	$3,730,876
Amount of PARIF Loan:	$731,000
Amount of HOME loan:	$3,000,000

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

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide construction and permanent mortgage loans to said applicant from PARIF program funds and HOME program funds for the indicated development, upon the following terms and conditions:

1. The amount of the PARIF loan shall be up to $730,876; and

2. The terms of the PARIF loan shall be:
   a. Interest rate of 4.50%
   b. Term of 15 Years

c. During the first 60 months (5 years) interest accrues at the stated interest rate and no payment is required.
d. Thereafter, the loan principal and all of the outstanding interest amount will be fully amortized over the next 120 months (10 years) at the stated interest rate.

3. The amount of the HOME loan shall be up to $3,000,000; and

4. The terms of the HOME loan shall be:
   a. Interest Rate of 0.00%
   b. Term of 20 years, and

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

6. The Mortgagor shall execute an Agency Mortgage Loan Commitment for the HOME loan and PARIF loan with terms and conditions embodying the above in form and substance acceptable to Agency staff and the closing of the loans shall occur no later than 20 months from the adoption date of this Resolution; and

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

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

Adopted this 25th day of August 2016.

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CHAIRMAN

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Board Agenda Item: 7.D
Date: 8/25/2016

Item: 1st Avenue Flats, Rochester, D7872

Staff Contact(s):
Susan Thompson, 651.296.9838, susan.thompson@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Agency staff completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to $5,089,000.

Fiscal Impact:
In the 2016 Affordable Housing Plan (AHP), the Minnesota Housing board allocated $70 million in new activity for the LMIR program, which includes $30 million from the Housing Investment Fund (Pool 2) and $40 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. Funding for this loan falls within the approved budget, and the loan will be made at an interest rate and with terms consistent with what is described in the AHP. Additionally, the LMIR loan should generate over $125,000 in fee income (origination fee and construction oversight fee) as well as interest earnings that will help offset Agency operating costs.

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
- Development Summary
- Resolution

At its October 22, 2015 meeting, the Minnesota Housing board approved this development for processing under the Low and Moderate Income Rental (LMIR) program and approved a commitment for financing under the Economic Development and Housing Challenge (EDHC) program. The following summarizes the changes in the composition of the proposal since that time:

<table>
<tr><th>DESCRIPTION</th><th colspan="2">SELECTION</th><th colspan="2">COMMITMENT</th><th colspan="2">VARIANCE</th></tr>
<tr><td>Total Development Cost</td><td colspan="2">$13,687,130</td><td colspan="2">$14,836,868</td><td colspan="2">$ 1,149,738</td></tr>
<tr><td>Gross Construction Cost</td><td colspan="2">$10,166,520</td><td colspan="2">$10,500,273</td><td colspan="2">$ 333,753</td></tr>
<tr><td>Agency Sources:</td><td colspan="2"></td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>LMIR</td><td colspan="2">$ 3,643,000</td><td colspan="2">$ 5,089,000</td><td colspan="2">$ 1,446,000</td></tr>
<tr><td>FFCC</td><td colspan="2">$ 1,180,000</td><td colspan="2">$ 0</td><td colspan="2">$ (1,180,000)</td></tr>
<tr><td>EDHC</td><td colspan="2">$ 3,960,000</td><td colspan="2">$ 3,960,000</td><td colspan="2">$ 0</td></tr>
<tr><td>Total Agency Sources</td><td colspan="2">$ 8,783,000</td><td colspan="2">$ 8,960,000</td><td colspan="2">$ 266,000</td></tr>
<tr><td>Other Non-Agency Sources:</td><td colspan="2"></td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>Tax Credit Equity</td><td colspan="2">$ 3,222,543</td><td colspan="2">$ 4,008,132</td><td colspan="2">$ 785,589</td></tr>
<tr><td>GMHF</td><td colspan="2">$ 300,000</td><td colspan="2">$ 350,000</td><td colspan="2">$ 50,000</td></tr>
<tr><td>Rochester Area Foundation</td><td colspan="2">$ 0</td><td colspan="2">$ 50,000</td><td colspan="2">$ 50,000</td></tr>
<tr><td>Energy Rebate</td><td colspan="2">$ 27,600</td><td colspan="2">$ 27,600</td><td colspan="2">$ 0</td></tr>
<tr><td>GP Equity</td><td colspan="2">$ 1,251,774</td><td colspan="2">$ 314,735</td><td colspan="2">$ (937,039)</td></tr>
<tr><td>Deferred Developer Fee</td><td colspan="2">$ 2,213</td><td colspan="2">$ 1,038,291</td><td colspan="2">$ 1,036,078</td></tr>
<tr><td>Remaining Gap</td><td colspan="2">$ 100,000</td><td colspan="2">$ 0</td><td colspan="2">$ (100,000)</td></tr>
<tr><td>Gross Rents:</td><td colspan="2"></td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>Unit Type</td><td># of DU</td><td>Rent</td><td># of DU</td><td>Rent</td><td># of DU</td><td>Rent</td></tr>
<tr><td>1 BR</td><td>12</td><td>$ 766</td><td>16</td><td>$ 837</td><td>4</td><td>$ 71</td></tr>
<tr><td>1 BR</td><td>4</td><td>$ 651</td><td>0</td><td>$ 0</td><td>(4)</td><td>$ (651)</td></tr>
<tr><td>2 BR</td><td>10</td><td>$ 877</td><td>14</td><td>$ 877</td><td>4</td><td>$ 0</td></tr>
<tr><td>2 BR</td><td>42</td><td>$ 920</td><td>38</td><td>$ 1,020</td><td>(4)</td><td>$ 100</td></tr>
<tr><td>LTH Units</td><td>68</td><td></td><td>68</td><td></td><td>0</td><td></td></tr>
</table>

Factors Contributing to Variances:

1. Change in financing structure:
   - Change in mortgage structure with a 17 year term and 35 year amortization, a lower interest rate and elimination of HUD Risk Share Insurance allow the loan amount to increase by nearly $600,000.
   - Increased rents allow the mortgage to increase by $300,000.
   - Tax Increment Financing (TIF) is now being financed by the first mortgage rather than a separate General Partner loan, resulting in a $460,000 increase to the mortgage.

2. Elimination of 4 units with Section 811 rental assistance. After the project was selected for financing, it was determined that the management company does not currently administer any HUD project-based rental assistance, which would make the addition of this assistance administratively difficult. Without the rental assistance, the rents for these units were able to be increased to align with the balance of the one-bedroom units.

3. Total Development Cost (TDC) has increased by 8.4 percent since selection, primarily offset with increased housing tax credit equity based on a $0.09/credit increase in syndication pricing.
    - Construction costs increased 3 percent due to increased energy code requirements and minor amount of soil correction not originally anticipated.
    - Professional and Financing fees increased 44 percent as a result of a change in financing structure with additional lenders leading to increased legal fees and third party reports. Increased marketing and furniture budgets are justified based on the rent structure near the top of the tax credit competition.
    - Developer fee increased 47 percent to align with developer's original proposal with the more complex financing structure. An additional developer fee is warranted based on added complexity of a tax exempt structure and is more than offset by the deferred developer fee.
    - The development cost per unit remains within the Agency's predictive model. Development costs that exceed the predictive model estimate by 25 percent or more require board approval. The budgeted TDC per unit of $218,189 is 9.36 percent below the $240,717 predictive model estimate.

Other Significant Events since Board Selection:

1. At the October 22, 2015 meeting, the board approved this development to receive a LMIR mortgage with HUD Risk Share Insurance, along with both an FFCC and an EDHC deferred loan. After selections, it was determined that, although agency staff are comfortable with the project's location adjacent to railroad tracks, it would present significant difficulty in obtaining HUD approval for the Risk Share Insurance. After exploring several financing options, the developer pursued financing with a third-party lender; however, the Agency was unwilling to accept the risk posed by the form of the Subordination Agreement required by the proposed first mortgage lender. The Agency determined that the risk of providing a shorter-term first mortgage loan without Risk Share Insurance, along with the EDHC loan, was preferable to the risk posed to the EDHC loan alone under the requested Subordination Agreement.

DEVELOPMENT SUMMARY
DEVELOPMENT:

Name:	1st Avenue Flats			App#:	D7872 M 17268
Address:	420 1st Avenue NW				
City:	Rochester	County:	Olmstead	Region:	SE

MORTGAGOR:
Ownership Entity: 1AF, Limited Partnership
General Partner/Principals: 1AF Roch, LLC/Joseph Weis

DEVELOPMENT TEAM:
General Contractor: Eagle Building Company, LLC, Minneapolis
Architect: Miller Hanson Partners, Minneapolis
Attorney: Winthrop & Weinstine, PA, Minneapolis
Management Company: Vesta Property Management, Minneapolis
Service Provider: NA

CURRENT FUNDING REQUEST/PROGRAM and TERMS:

$ 5,089,000 LMIR First Mortgage

Funding Source:	Hsg Investment Fund (Pool 2)
Interest Rate:	4.50%
MIP Rate:	NA
Term (Years):	17
Amortization (Years):	35

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ FT)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY
1BR	16	666	$ 837	$949	$ 37,960
2BR	14	920	$ 877	$1,138	$ 45,520
2BR	38	920	$ 1,020	$1,138	$ 45,520
TOTAL	68				

Purpose:
1st Avenue Flats is a new construction, workforce housing development located in Rochester, Minnesota. The 68-unit, four-story apartment building includes a mix of one- and two- bedroom units. The development meets the Agency's strategic priority of providing workforce housing.

Population Served:
The development will provide housing for singles and families and the households will have incomes at or below 60 percent AMI. As required by Minnesota Housing tax exempt bond statutes, 20 percent of the units will have rents not higher than the Fair Market Rent.

Project Feasibility:
The development is feasible as proposed. Minnesota Housing will provide an amortizing first mortgage with a 17 year term and 35 year amortization and a $3,960,000 deferred loan through the Economic Development and Housing Challenge program. Both loans will be funded at completion of construction. The City of Rochester will issue short-term tax exempt bonds, which will make the development eligible for approximately $391,237 of 4% tax credits, which will result in over $4,000,000 of tax credit equity based on a $1.03/credit price. Other sources include a deferred loan from the Greater Minnesota Housing Fund of $350,000, a $50,000 loan from the Rochester Area Foundation, energy rebates, $314,000 in general loans and equity, and approximately $1,038,291 of deferred developer fee.

Development Team Capacity:
Joseph Development, LLC has completed 1,608 units of affordable housing that are of similar size and scope of the proposed development. Previous experience with Minnesota Housing and internal staff experience has rated this developer as acceptable.

Vesta Management was established in 2014 by the principals of MWF Properties. MWF has developed and owned properties for 15+ years. They indicate 26 employees, two of whom are designated to the management and marketing of the buildings. The director of Property Management has 17 years' experience in managing LIHTC affordable housing and is a certified compliance specialist. The property management company has the capacity to manage this development.

Physical and Technical Review:
The applicant is proposing to construct a new 68-unit, four-story apartment building. Minnesota Housing's staff architect reviewed and approved the construction plans and specifications. The general contractor, Eagle Building, and the architect, Miller Hanson, have capacity and have successfully utilized a similar building design in other nearby communities.

The budgeted TDC per unit of $217,371 is 9.70 percent below the $240,717 predictive model estimate.

Market Feasibility:
The market study prepared by Bowen National Research states that properties in the Rochester area maintain extremely low vacancy rates, with projected growth of both population and households. The proposed rents are affordable to the local workforce and represent a 9 to 17 percent discount compared to achievable market rents.

Supportive Housing:
NA

Agenda Item: 7.D
Resolution

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

RESOLUTION NO. MHFA 16-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM

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

Name of Development:	1st Avenue Flats
Sponsors:	1AF Roch, LLC/Joseph Weis
Guarantors:	Joseph Weis
Location of Development:	Rochester
Number of Units:	68
General Contractor:	Eagle Building Company, LLC, Minneapolis
Architect:	Miller Hanson Partners, Minneapolis
Amount of Development Cost:	$14,781,258
Amount of LMIR Mortgage:	$5,089,000

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

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

NOW THEREFORE, BE IT RESOLVED:

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

1. The amount of the LMIR amortizing loan shall not exceed $5,089,000; and

2. The interest rate on the permanent LMIR loan shall be 4.50 percent per annum, with monthly payments based on a 35 year amortization; and

3. The term of the permanent LMIR loan shall be 17 years; and

4. The LMIR End Loan Commitment shall be entered into on or before February 28, 2017 and shall have an 18 month term (which shall also be the LMIR Commitment Expiration Date); and

5. Agency staff reviewed and approved the Mortgagor; and

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

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

8. Joseph Weis shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

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

Adopted this 25th day of August 2016.

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CHAIRMAN

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Board Agenda Item: 8.A.
Date: 8/25/2016

Item: Draft 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 a draft of the 2017 Affordable Housing Plan (AHP) for your review and discussion. We seek your feedback and comments as we develop the final document. We are also holding a public comment period from August 18 through September 1, and we will provide you with a summary of those comments at the Program Committee meeting scheduled for September 9. We will bring the final 2017 AHP to the September Board meeting for your 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):
- Draft 2017 Affordable Housing Plan

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2017 Affordable Housing Plan

DRAFT for Public Comment

August 18, 2016

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
- Being innovative and creative.

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	634,200,000
Homebuyer/Owner Education and Counseling	2,767,000
Home Improvement Lending	22,600,000
Rental Production - New Construction and Rehabilitation	126,195,954
Rental Assistance Contract Administration	187,079,695
Resources to Prevent and End Homelessness (Non-Capital)	33,547,250
Rental Portfolio Management	2,000,000
Multiple Use Resources	30,772,848
Other	3,013,814
Total	**1,042,176,561**

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 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 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 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, 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 price 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.

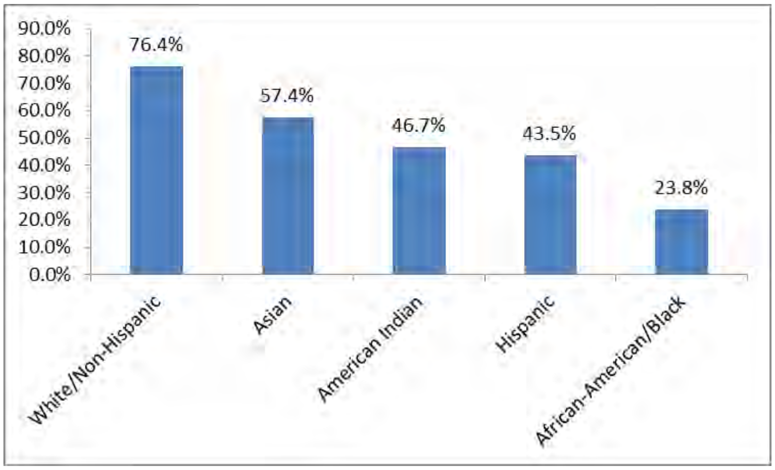
- The limited supply of housing will continue to drive up housing costs. The rental vacancy rate is about 3 percent around the state, well below the desired 5 percent that reflects a balanced market.[4] The months supply of homes for sale is 3.9 months (and just 2.9 months in the Twin Cities metro area),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

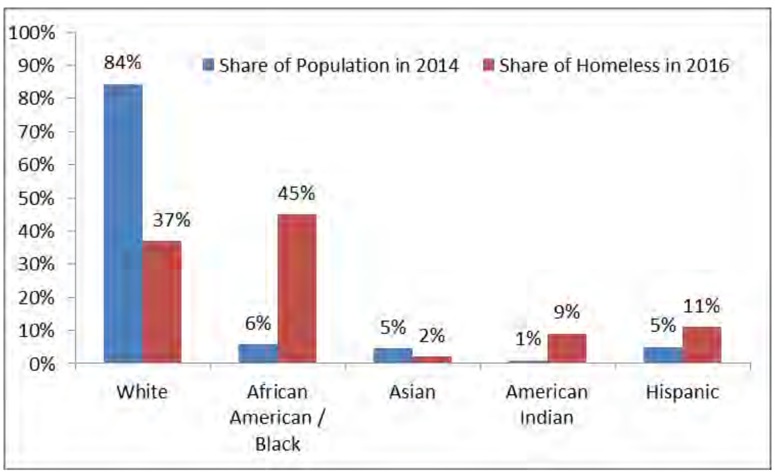
- Minnesota has the third highest homeownership disparity in the country. While 76.4 percent of white/non-Hispanic households own their home, only 41.0 percent of households of color or Hispanic ethnicity do.

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
- Be **innovative and creative** as we work to remove systemic and institutional barriers people face in finding stable and affordable housing

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, such as 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.

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 Association (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.

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.

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 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 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 homebuyer 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 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. 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 renters.

Remove Barriers 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 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 plans now for our focus over the next year, we are also aware that there are other issues emerging in the housing market that may require our attention in the future. For example:

- 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 may need to consider how we work with the communities and households that stand to lose this housing which is often deeply affordable.
- Following the great recession, there was a general increase in the number of single family homes in Minnesota communities being used and managed as rental properties. Communities have begun to raise concerns about the physical condition of these properties. We may need to consider options for bringing more resources to this segment of the rental housing market.

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 contemplate these future challenges.

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 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 low- and moderate-income households 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	**$553.700,000**	**$634,200,000**			
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	$15,000,000	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**	**$126,195,954**			
12	First Mortgage - Low and Moderate Income Rental (LMIR)	$70,000,000	$65,000,000	Amortizing Loan	$22,449	53.1%
13	First-Mortgage - MAP Lending (Multifamily Accelerated Processing)	$15,000,000	$15,000,000	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	$4,500,000	Deferred Loan	$9,423	50.2%
19	Preservation - Affordable Rental Investment Fund (PARIF)	$9,492,171	$11,419,070	Deferred Loan	$14,316	44.8%
20	HOME	$814,938	$10,904,245	Deferred Loan	$16,915	24.6%
21	Preservation - Publicly Owned Housing Program (POHP) - GO Bonds	$1,300,378	$1,371,988	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**	**$33,547,250**			
26	Housing Trust Fund (HTF)* - Net	$15,671,279	$17,910,000	Rent Assistance and Operating Support	$9,126	64.7%
26a	Funding for new contracts	$2,595,000	$33,225,000			
26b	Adj. to spread contracts over two years	$13,076,279	-$15,315,000			

		2016 Original Funding Level	2017 Funding Level	Activity	Median Income Served (2015)	Percentage Served from Communities of Color (2015)
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
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**	**$30,772,848**			
32	Economic Development and Housing/Challenge (EDHC) - Regular	$19,575,000	$24,117,848	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	$1,000,000	Loans & Grants	N/A	N/A
	Other	**$3,853,641**	**$3,013,814**			
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	$1,170,281	Grants	N/A	N/A
40	Disaster Relief Contingency Fund	$1,756,997	$1,843,533	Loans & Grants	N/A	N/A
	Total	**$966,283,849**	**$1,042,176,561**			

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 25-29.) 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 two primary ways. (Line references are to Table 2 above.)

- **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 $4.5 million of previously uncommitted Housing Infrastructure Bond funds available, which is a decrease from 2016. To help maintain multifamily rental construction and 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.

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 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 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. These projections are broken out in Table 3 below.

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

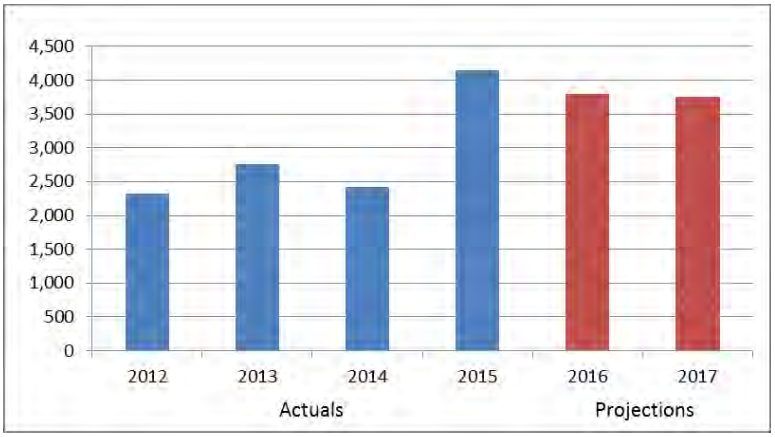
Program		Households or Units
Homebuyer Financing and Home Refinancing		**3,781**
1	Home Mortgage Loans	3,750
2	Mortgage Credit Certificates (MCC)	Included in First Mortgage Count
3	Deferred Payment Loans	
4	Monthly Payment Loans	
5	Habitat for Humanity Initiative	31
Homebuyer/Owner Education & Counseling		**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		**2,027**
10	Multifamily RFP/HTC/Pipeline Production	1,951
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		Households 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)		**11,726**
27	Housing Trust Fund (HTF)	3,449
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		**402**
33	EDHC - Single Family Regular RFP	322
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	Disaster Relief Contingency Fund	TBD
Total		**64,544**

Homebuyer Financing and Home Refinancing

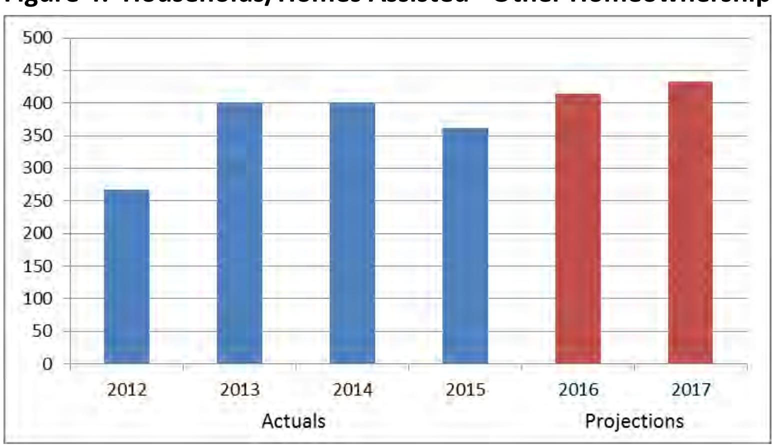
Figure 3 shows our production for home mortgage loans, which held steady between 2,300 and 2,800 loans in first part of the decade. Our lending then took off in 2015; and as expected, it has declined in 2016 with higher home prices and regulatory changes. We now expect production for 2016 will be about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

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.)

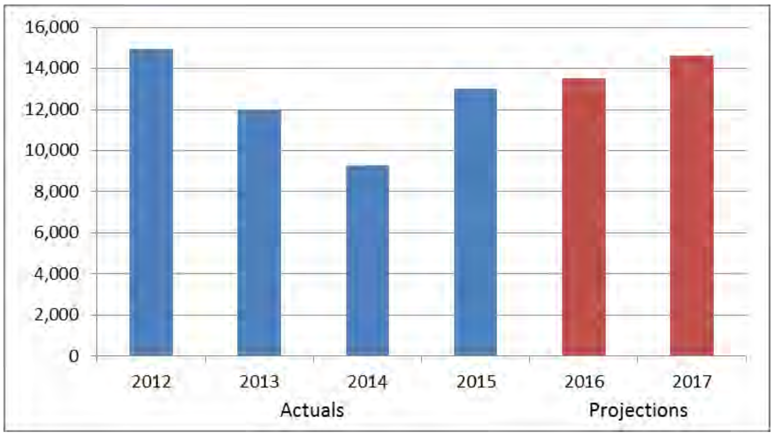
Figure 4: Households/Homes Assisted - Other Homeownership Opportunities



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.)

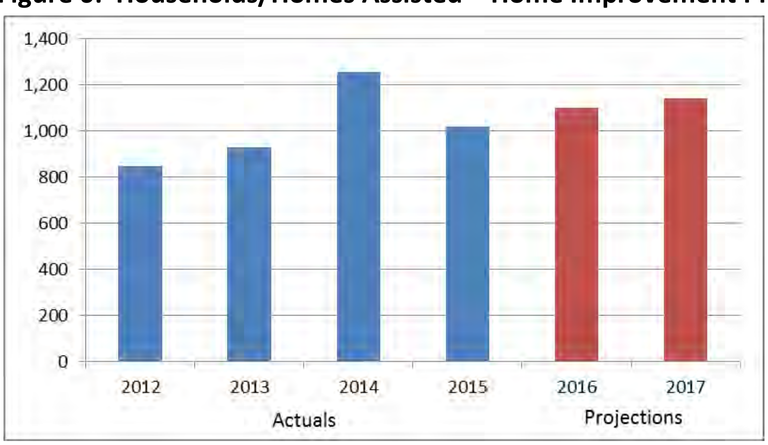
Figure 5: Households Assisted – Homebuyer/Homeowner Education and Counseling



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.)

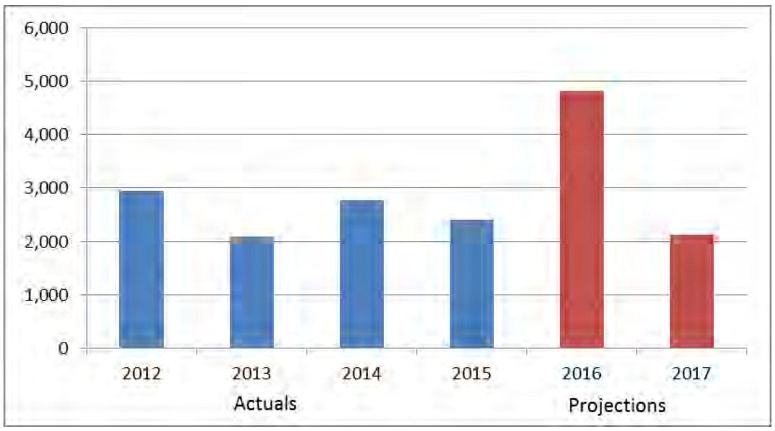
Figure 6: Households/Homes Assisted – Home Improvement Programs



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.)

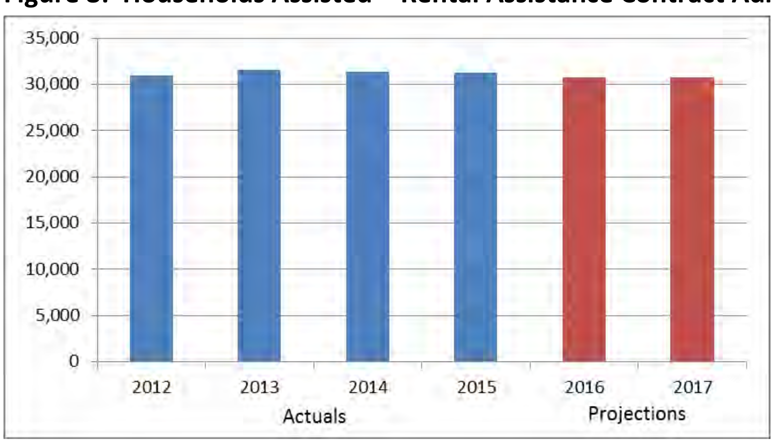
Figure 7: Units Assisted – Rental Production and Portfolio Management



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.

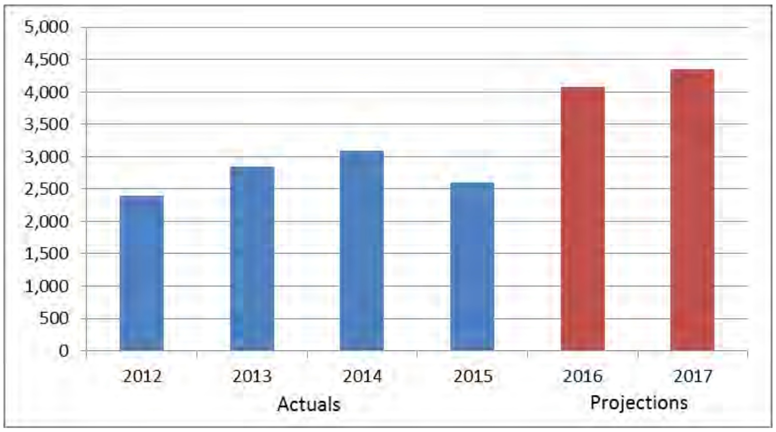
Figure 8: Households Assisted – Rental Assistance Contract Administration



Resources to Prevent and End Homelessness (Non-Capital)

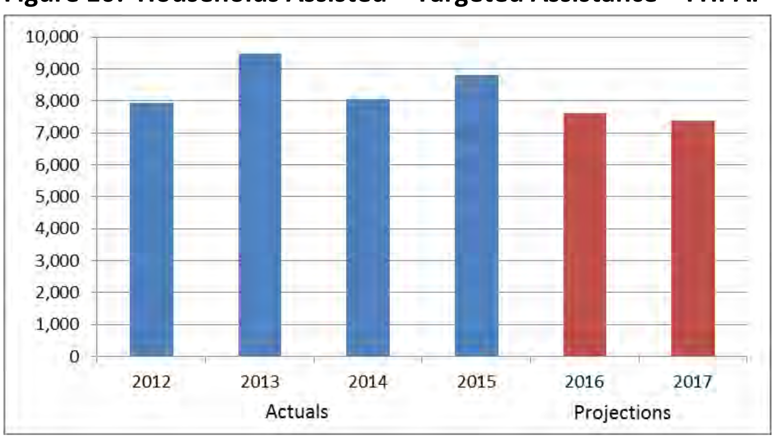
Since 2012, there has been an increase in activity for state and Agency funded rental assistance and operating subsidies (Figure 9). For 2016 and 2017, we received an additional $2.5 million for the Bridges program, which provides rental assistance to people with a serious mental illness. We also added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

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	Proposed 2017 AHP
Federal Resources	$196,255,098	$213,183,727
State Appropriated Resources	$76,315,060	$81,921,346
State Capital Investments (GO & Housing Infrastructure Bonds)	$22,530,378	$5,871,988
Agency Bond Proceeds and Other Mortgage Capital	$580,400,000	$660,700,000
Housing Investment Fund (Pool 2)	$66,432,450	$54,227,500
Housing Affordability Fund (Pool 3)	$24,350,863	$26,272,000
Total	**$966,283,849**	**$1,042,176,561**

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 $16.7 million. Last year, we had $22.5 million in these resources, while this year, we have $5.9 million. The Governor proposed $90 million in additional funding in his capital investment proposal to the 2016 Legislature. As of this publication, the 2016 Legislature has not taken action on a capital investment bill.

- **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 has recently generated about $1.2 million in program repayments, which will be reused for new projects.

- **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)** investment will decrease by $12.2 million, largely reflecting 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 $1.9 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.

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	**$634,200,000**	**$0**	**$3,285,000**	**$0**	**$605,700,000**	**$12,500,000**	**$12,715,000**
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	$15,000,000		$3,285,000				$11,715,000
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	**$126,195,954**	**$23,450,290**	**$12,373,676**	**$5,871,988**	**$55,000,000**	**$25,000,000**	**$4,500,000**
11	First Mortgage - Low and Moderate Income Rental (LMIR)	$65,000,000				$40,000,000	$25,000,000	
12	First Mortgage - MAP Lending (Multifamily Accelerated Processing)	$15,000,000				$15,000,000		
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)	$4,500,000		$0	$4,500,000			$0
18	Preservation Affordable Rental Investment Fund (PARIF)	$11,419,070		$11,419,070				
19	HOME	$10,904,245	$10,904,245					
20	Preservation - Publicly Owned Housing Program (POHP)	$1,371,988			$1,371,988			
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)	**$33,547,250**	**$653,742**	**$32,667,008**	**$0**	**$0**	**$0**	**$226,500**
25	Housing Trust Fund (HTF) - **Net Activity**	$17,910,000		$17,910,000				$0
25a	Funding for new contracts	$33,225,000		$33,225,000				$0
25b	Adj. to spread two-year contracts over two years	-$15,315,000		-$15,315,000				$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	**$30,772,848**	**$0**	**$24,792,848**	**$0**	**$0**	**$3,000,000**	**$2,980,000**
31	Economic Development and Housing/Challenge (EDHC) - Regular	$24,117,848		$24,117,848				
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	$1,000,000						$1,000,000
	Other	**$3,013,814**	**$0**	**$3,013,814**	**$0**	**$0**	**$0**	**$0**
37	Manufactured Home Relocation Trust Fund	$1,170,281		$1,170,281				
38	Disaster Relief Contingency Fund	$1,843,533		$1,843,533				
	2016 Proposed AHP Total	**$1,042,176,561**	**$213,183,727**	**$81,921,346**	**$5,871,988**	**$660,700,000**	**$54,227,500**	**$26,272,000**

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 serving households of color or Hispanic ethnicity and households with incomes below 80 percent of area median income.

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 will be required to address the strong demand and limited resources for assistance.

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 annual mortgage interest up to a $2,000 credit. Eligibility requirements for MRB programs, such as first-time homebuyer status, also apply to MCCs.

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 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 2,000 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	$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)	$11,715,000
2017 Total	**$15,000,000**
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 are changing 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.

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

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 completed 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.

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, reaches out to households of color or Hispanic ethnicity to increase their probability of successful homeownership in Minnesota through comprehensive homeowner training.

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 loan 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

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 below-market interest rate, 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.

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 the appeal of 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.

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 appeal 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 appeal 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.

We are budgeting $25 million for LMIR permanent financing and $40,000,000 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.

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	$40,000,00
Housing Investment Fund (Pool 2)	$25,000,00
Housing Affordability Fund (Pool 3)	
2017 Total	**$65,000,000**
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.

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 $15 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.

Based on resources available for new activity in 2017, we expect to assist 438 units under MAP.

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	$15,000,000
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
2017 Total	**$15,000,000**
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, funding 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.)

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, and it is an account from which resources will be transferred to regular programs as needed. 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 credit 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 credit.

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 traditionally is held early in the calendar year. We establish a waiting list of unfunded or partially funded applications at the conclusion of Round 2.

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 by government sponsored enterprises Fannie Mae and Freddie Mac and administered by U.S. Department of Housing and Urban Development.

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 subsidy with one of the above for developments producing new units meeting the Permanent Supportive Housing strategic priority (up to 30% of the grant)

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 allocate all HIB resources through the consolidated RFP, and not leave resources for pipeline applications. 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.

Based on resources available for new activity in 2017, we expect to fund one project of less than 36 units 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	$4,500,000
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Carry Forward (ELHIF only)	
2017 Total	**$4,500,000**
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 381 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	$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	$6,201,070
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	**$11,419,070**
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 203 units.

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	$3,730,532
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	**$10,904,245**
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	$1,371,988
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
2017 Total	**$1,371,988**
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 2016

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 1,962 households under this program through the core contracts and the pilots and assist 1,486 units through operating subsidies.

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	$5,608,000
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	**$33,225,000**
Adjustment to Spread Contracts Over Two Years	**-$15.315.000**
2017 Net Total	**$17,910,000**
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 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 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.

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 state-appropriated 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.

We make EDHC loans 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:

<u>Multifamily EDHC</u>

- 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

<u>Single Family EDHC – Impact Fund</u>

- 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 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 583 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	$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	$3,442,848
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	**$24,117,848**
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 will examine other ways to serve this market.

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 income 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

Capacity Building Revolving Loan Program

The Capacity Building Revolving Loan Program assists non-profit organizations and local units of government in the preservation or development of affordable housing for low-and moderate-income households. Capacity Building loans provide lending capital to organizations for the purposes of: 1) foreclosure remediation lending and 2) pre-development lending activities. Foreclosure remediation lending covers costs such 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 costs such 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 a revolving loan fund delivered through administrators. The Twin Cities Community Land Bank and the Family Housing Fund administer the foreclosure remediation lending 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 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, 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)	$0
Housing Affordability Fund (Pool 3)	
2017 Total	**$0**
2016 Original Total	**$0**

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

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 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)	$1,000,000
2017 Total	**$1,000,000**
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	$1,170,281
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	**$1,170,281**
2016 Original Total	**$1,196,644**

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

Flood Disaster

Disaster response programs provide funding for 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	$1,843,533
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	**$1,843,553**
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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Board Agenda Item: 8.B
Date: 8/25/2016

Item: Draft Consolidated Plan for Housing and Community Development 2017-2021 and 2017 Annual Action Plan

Staff Contact(s):
Jessica Deegan, 651.297.3120, jessica.deegan@state.mn.us

Request Type:

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

Summary of Request:
Staff will provide the Board with background information on the Consolidated Plan and Annual Action Plan. The draft Consolidated Plan for Housing and Community Development 2017-2021 and 2017 Annual Action Plan are available for public comment until September 15, 2016. The Board will be asked to approve the plans at the September Board meeting.

Fiscal Impact:
The Annual Action Plan has fiscal impact and describes to the Department of Housing and Urban Development how the State will use its HOME, National Housing Trust Fund and HOPWA funds in program year 2017. Amounts for these programs are included in the draft 2017 Affordable Housing Plan at $10,904,245, $3,000,000 and $153,742 respectively. Together these programs account for just over 1% of the total draft 2017 Affordable Housing Plan's budget. The amount of the HOME program in the draft 2017 Affordable Housing Plan includes nearly two years of allocations due to timing.

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
- Draft Executive Summary
  - Full draft available at http://www.mnhousing.gov/get/MHFA_1040329
- Relevant pages of plan

Background
To be eligible to receive HOME Investment Partnerships (HOME), National Housing Trust Fund and Housing Opportunities for Persons with AIDS (HOPWA), Community Development Block Grant (CDBG), and Emergency Solutions Grant (ESG) program funds, the State must have a five year 'Consolidated Plan' and an 'Annual Action Plan.' The Department of Employment and Economic Development (DEED) is the lead agency for preparing the plans, but DEED, Minnesota Housing, and the Department of Human Services (the consolidated plan agencies) work collaboratively to prepare them.

The consolidated plan, developed this year for program years 2017-2021, describes the state's economic and demographic profile, the housing market, a needs assessment for housing and homeless, community development needs, and goals and objectives for housing, community development, and housing and services for special needs populations.

The annual plan describes to the public and HUD the activities that will be undertaken with the federal funds for the program year beginning October 1, 2016, to address the goals and objectives of the Consolidated Plan. HUD has 45 days to review and comment, approve, or disapprove the Annual Action Plan.

Both the consolidated and annual action plans were developed after soliciting and considering public comment through three focus groups, three webinars with funding stakeholders, four public hearings (three held in Greater Minnesota), and an on-line survey that was widely publicized to the public and stakeholders.

Minnesota Housing takes the lead on evaluating performance under the Annual Action Plan through the annual Consolidated Annual Performance and Evaluation Report (CAPER).

Previous Actions by the Board
At the March 2016 meeting, the Board approved the 2016 Annual Action Plan.

At the July 2016 meeting, the Board approved the National Housing Trust Fund Allocation as substantial amendments to the 2012-16 Consolidated Plan and the 2016 Annual Action Plan.

Next Steps
The public comment period for the Consolidated Plan and Annual Action Plan closes on September 15, 2016, and includes a public hearing on September 1, 2016 at 4:00 p.m. in Minnesota Housing's State Street Conference Room. Minnesota Housing, DEED and DHS will review all comments and make any changes that are necessary. The final Consolidated Plan and Annual Action Plan will be presented to the Board for approval in September.

Executive Summary

ES-05 Executive Summary - 91.300(c), 91.320(b)

1. Introduction

Since the U.S. Department of Housing and Urban Development (HUD) has required consolidating the planning, application, reporting, and citizen participation processes for the formula grant programs: Community Development Block Grants (CDBG), Home Investment Partnerships (HOME), National Housing Trust Fund (NHTF), Emergency Solutions Grants (ESG), and Housing Opportunities for Persons with AIDS (HOPWA). The new single-planning process, termed the Consolidated Plan for Housing and Community Development, was intended to more comprehensively fulfill three basic goals: to offer decent housing, to provide a suitable living environment, and to expand economic opportunities.

According to HUD, the Consolidated Plan is designed to be a collaborative process whereby a community establishes a unified vision for housing and community development actions. It offers entitlements the opportunity to shape these housing and community development programs into effective, coordinated housing and community development strategies. It also allows for strategic planning and citizen participation to occur in a comprehensive context, thereby reducing duplication of effort.

As the lead agency for the Consolidated Plan for the State of Minnesota, the Minnesota Department of Employment and Economic Development (DEED), in coordination with the Minnesota Housing Finance Agency (Minnesota Housing), and the Department of Human Services (DHS), hereby follows HUD's guidelines for citizen and community involvement. Furthermore, these agencies are responsible for overseeing these citizen participation requirements, those that accompany the Consolidated Plan and the CDBG, HOME, HOPWA, and ESG programs, as well as those that complement the DEED planning processes already at work in the state.

PURPOSE OF THE CONSOLIDATED PLAN

The Minnesota Consolidated Plan for Housing and Community Development for 2017 to 2021 is the comprehensive five-year planning document identifying the needs and respective resource investments in satisfying the state's housing, homeless and non-homeless special population, community development, and economic development needs.

2. Summary of the objectives and outcomes identified in the Plan Needs Assessment Overview

The strategies of the programs administered by the DEED, Minnesota Housing, and DHS are to provide decent housing, a suitable living environment, and expanded economic opportunities for the state's low- and moderate-income residents. The agencies strive to accomplish these strategies by maximizing and effectively utilizing all available funding resources to conduct housing and community development activities that will serve the economically disadvantaged residents of the state. By addressing needs and creating opportunities at the individual and local government levels, the agencies hope to improve the quality of life for all residents of the state. These strategies are further explained as follows:

· *Providing decent housing* requires helping homeless persons obtain appropriate housing and assisting those at risk of homelessness, preserving the affordable housing stock, increasing availability of permanent housing that is affordable to low- and moderate-income persons without discrimination, and increasing the supply of supportive housing.

· *Providing a suitable living environment* entails improving the safety and livability of neighborhoods, increasing access to quality facilities and services, and reducing the isolation of income groups within an area through integration of low-income housing opportunities.

· *Expanding economic opportunities* involves creating jobs that are accessible to low and moderate-income persons, making mortgage financing available for low- and moderate-income persons at reasonable rates, providing access to credit for development activities that promote long-term economic and social viability of the community, and empowering low-income persons to achieve

These strategies will be purposed through the Goals as outlined in the Strategic Plan section of this Plan.

3. Evaluation of past performance

The State's evaluation of its past performance has been completed in a thorough Consolidated Annual Performance and Evaluation Report (CAPER). This document states the objectives and outcomes identified in the State's last Plan for 2012 to 2016 Consolidated Plan and includes an evaluation of past performance through measurable goals and objectives compared to actual performance.. The past year CAPER can be found at: http://mn.gov/deed/government/financial-assistance/community-funding/small-cities.jsp and http://www.mnhousing.gov/wcs/Satellite?c=Page&cid=1358904876622&pagename=External%2FPage%2FEXTStandardLayout

4. Summary of citizen participation process and consultation process

As part of the consolidated planning process, the lead agency must consult with a wide variety of organizations in order to gain understanding of the housing and community development stage. This Consolidated Plan represents a collective effort from a broad array of entities in Minnesota including private, non-profit and public organizations, non-entitled communities, county governments, Continuum of Care organizations, and various other state agencies. The public participation process included focus groups, outreach committees, public input sessions, and a Housing and Community Development Needs Surveys.

5. Summary of public comments

Public comment narratives are attached as an appendix in Citizens Participation Comments.

6. Summary of comments or views not accepted and the reasons for not accepting them

Public comment narratives are attached as an appendix in Citizens Participation Comments. The State did not reject any comments.

7. Summary

The 2017-2021 Consolidated Plan has the following goals for the 5 year planning period. These goals will use HOME, ESG, HOPWA, NHTF and CDBG funds.

- Provide Decent Affordable Housing - DEED

Fund housing rehabilitation activities for low to moderate income homeowner and rental households through CDBG funds, DEED

- Enhance Affordable Housing Opportunities -MH

Fund housing activities for low-to-moderate income rental and homeowner households, including renovation and new construction

- Promote Economic Development

Encourage robust economic growth through the development and retention of businesses and jobs throughout the State

- Facilitate Housing and Service for the Homeless

Provide funds for service providers to meet the various housing and service needs of the homeless population in Minnesota

- Provide Funds for Special-Needs Housing and Services

Continue to fund programs that provide housing and services to special needs populations, including those with HIV/AIDS

- Address Public Facility and Infrastructure Needs

Address community needs through improvements to public facilities and infrastructure

Additionally, throughout this document, data is presented in two forms. Tables with HUD generated data appear in blue. Additional tables have been added to supplement these data, provide additional information, or more up-to-date figures. Narrative throughout this document will make reference to both sets of tables.

2017 – 2021 MINNESOTA CONSOLIDATED PLAN FOR HOUSING AND COMMUNITY DEVELOPMENT

Prepared for the:
Minnesota Department of Employment and Economic Development
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(651) 259-7114

Prepared by:
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Draft for Public Review

August 15, 2016

Executive Summary

ES-05 Executive Summary - 91.300(c), 91.320(b)

1. Introduction

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According to HUD, the Consolidated Plan is designed to be a collaborative process whereby a community establishes a unified vision for housing and community development actions. It offers entitlements the opportunity to shape these housing and community development programs into effective, coordinated housing and community development strategies. It also allows for strategic planning and citizen participation to occur in a comprehensive context, thereby reducing duplication of effort.

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PURPOSE OF THE CONSOLIDATED PLAN

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7. Summary

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- Provide Decent Affordable Housing - DEED

Fund housing rehabilitation activities for low to moderate income homeowner and rental households through CDBG funds, DEED

- Enhance Affordable Housing Opportunities -MH

Fund housing activities for low-to-moderate income rental and homeowner households, including renovation and new construction

- Promote Economic Development

Encourage robust economic growth through the development and retention of businesses and jobs throughout the State

- Facilitate Housing and Service for the Homeless

Provide funds for service providers to meet the various housing and service needs of the homeless population in Minnesota

- Provide Funds for Special-Needs Housing and Services

Continue to fund programs that provide housing and services to special needs populations, including those with HIV/AIDS

- Address Public Facility and Infrastructure Needs

Address community needs through improvements to public facilities and infrastructure

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I. The Process

PR-05 Lead & Responsible Agencies 24 CFR 91.300(b)

1. Describe agency/entity responsible for preparing the Consolidated Plan and those responsible for administration of each grant program and funding source

The following are the agencies/entities responsible for preparing the Consolidated Plan and those responsible for administration of each grant program and funding source.

Agency Role	Name	Department/Agency
Lead Agency	MINNESOTA	
CDBG Administrator		DEED
HOPWA Administrator	MINNESOTA	Minnesota Housing Finance Agency
HOME Administrator	MINNESOTA	Minnesota Housing Finance Agency
ESG Administrator	MINNESOTA	Department of Human Services

Table 1 – Responsible Agencies

Narrative

The Minnesota Housing Finance Agency will also administer the National Housing Trust Fund (NHTF).

Consolidated Plan Public Contact Information

Hillary Friend, Grants Coordinator
Department of Employment and Economic Development
1st National Bank Building, 332 Minnesota St., Suite E200
St. Paul MN 55101
Direct: 651-259-7504
Email: Hillary.Friend@state.mn.us

SP-25 Priority Needs – 91.315(a)(2)

Priority Needs

Table 45 – Priority Needs Summary

1	**Priority Need Name**	Homelessness
	Priority Level	High
	Population	Rural Chronic Homelessness Individuals Families with Children Mentally Ill Chronic Substance Abuse Veterans Persons with HIV/AIDS Victims of Domestic Violence Unaccompanied Youth
	Geographic Areas Affected	
	Associated Goals	Facilitate Housing and Service for the Homeless
	Description	Homelessness continues to be a high priority throughout the State
	Basis for Relative Priority	This priority was established using the Needs Assessment, survey, public and stakeholder input.
2	**Priority Need Name**	Low-Moderate Income Renter and Owner Households
	Priority Level	High
	Population	Extremely Low Low Moderate Middle
	Geographic Areas Affected	
	Associated Goals	Enhance affordable housing Opportunities
	Description	Low-Moderate income renter and owner households are a high priority in the state due to the level of cost burdens and other housing needs for these households.
	Basis for Relative Priority	This priority needs was established through the Needs Assessment, survey, public and stakeholder input.

3	**Priority Need Name**	Economic Opportunities
	Priority Level	High
	Population	Non-housing Community Development
	Geographic Areas Affected	
	Associated Goals	Promote Economic Development
	Description	Economic Opportunities continue to be a high priority for the State to encourage continued economic growth.
	Basis for Relative Priority	This priority was established using the Market Analysis, surveys, public and stakeholder input.
4	**Priority Need Name**	Public Facilities and Infrastructure
	Priority Level	High
	Population	Non-housing Community Development
	Geographic Areas Affected	
	Associated Goals	Address Public Facility and Infrastructure Needs
	Description	There are many community needs throughout the State that can be met through public facilities and infrastructure. This continues to be a high level need for the State.
	Basis for Relative Priority	This priority was established through the Needs Assessment, Market Analysis, surveys, and public and stakeholder input.
5	**Priority Need Name**	Human Services
	Priority Level	High
	Population	Elderly Frail Elderly Persons with Mental Disabilities Persons with Physical Disabilities Persons with Developmental Disabilities Persons with Alcohol or Other Addictions Persons with HIV/AIDS and their Families Victims of Domestic Violence
	Geographic Areas Affected	
	Associated Goals	Provide Funds for Special-Needs Housing & Services

	Description	Special Needs populations continue to have a variety of unmet needs. Human services continue to be a high priority in the State.
	Basis for Relative Priority	This priority was established through the Needs Assessment, surveys, and public and stakeholder input.

Narrative (Optional)

SP-45 Goals Summary – 91.315(a)(4)

Goals Summary Information

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
1	Provide Decent Affordable Housing - DEED	2017	2021	Affordable Housing	Non entitlement	Low-Moderate Income Renter and Owner Households	CDBG: $47,812,500	Rental units rehabilitated: 500 Household Housing Unit Homeowner Housing Rehabilitated: 1500 Household Housing Unit
2	Enhance affordable housing Opportunities - MH	2017	2021	Affordable Housing	Statewide	Low-Moderate Income Renter and Owner Households	HOME: $29,890,550 National Housing Trust Fund $15,000,000	Rental units rehabilitated: 955 Household Housing Units Rental units constructed: 955 Household Housing Units Other: 60 other
3	Promote Economic Development	2017	2021	Non-Housing Community Development	Non-Entitlement	Economic Opportunities	CDBG: $6,562,500	Jobs created/retained: 320 Jobs Businesses assisted: 375 Businesses Assisted Facade treatment/business building rehabilitation: 375 Business

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
4	Facilitate Housing and Service for the Homeless	2017	2021	Homeless	Statewide	Homelessness	ESG: $9,424,236	Tenant-based rental assistance / Rapid Rehousing: 2015 Households Assisted Homeless Person Overnight Shelter: 55760 Persons Assisted Homelessness Prevention: 215 Persons Assisted
5	Provide Funds for Special-Needs Housing & Services	2017	2021	Non-Homeless Special Needs	Non-Entitlement	Human Services	HOPWA: $855,358	Homelessness Prevention: 1100 Persons Assisted
6	Address Public Facility and Infrastructure Needs	2017	2021	Non-Housing Community Development	Non-Entitlement	Public Facilities and Infrastructure	CDBG: $20,625,000	Public Facility or Infrastructure Activities other than Low/Moderate Income Housing Benefit: 2200 Persons Assisted Public Facility or Infrastructure Activities for Low/Moderate Income Housing Benefit: 3500 Households Assisted

Table 50 – Goals Summary

Goal Descriptions

1	**Goal Name**	Provide decent affordable housing-DEED
	Goal Description	*Fund housing rehabilitation activities for low to moderate income homeowner and rental households through CDBG funds, DEED.*
2	**Goal Name**	Enhance affordable housing Opportunities
	Goal Description	*Fund housing activities for low-to-moderate income rental households, including renovation, new construction, and operating subsidy.*
3	**Goal Name**	Promote Economic Development
	Goal Description	*Encourage robust economic growth through the development and retention of businesses and jobs throughout the State*
4	**Goal Name**	Facilitate Housing and Service for the Homeless
	Goal Description	*Provide funds for service providers to meet the various housing and service needs of the homeless population in Minnesota*
5	**Goal Name**	Provide Funds for Special-Needs Housing & Services
	Goal Description	*Continue to fund programs that provide housing and services to special needs populations, including those with HIV/AIDS*
6	**Goal Name**	Address Public Facility and Infrastructure Needs
	Goal Description	*Address community needs through improvements to public facilities and infrastructure*

Estimate the number of extremely low-income, low-income, and moderate-income families to whom the jurisdiction will provide affordable housing as defined by HOME 91.315(b)(2)

Minnesota Housing anticipates serving 1,910 households through rental housing rehabilitation and new construction. DEED anticipates serving 2,000 households through homeowner and rental housing rehabilitation. All of these households must have incomes no greater than 80 percent AMI.

V. Annual Action Plan

AP-15 Expected Resources – 91.320(c)(1,2)

Introduction

The following section describes the annual allocation the State of Minnesota expects to receive for program years 2017-2021.

Anticipated Resources

Program	Source of Funds	Uses of Funds	Expected Amount Available Year 1				Expected Amount Available Reminder of ConPlan $	Narrative Description
			Annual Allocation: $	Program Income: $	Prior Year Resources: $	Total: $		
CDBG	public - federal	Acquisition Admin and Planning Economic Development Housing Public Improvements Public Services	16,995,275	0	0	16,995,275	0	
HOME	public - federal	Acquisition Homebuyer assistance Homeowner rehab Multifamily rental new construction Multifamily rental rehab New construction for ownership TBRA	5,978,110	0	0	5,978,110	0	

Program	Source of Funds	Uses of Funds	Expected Amount Available Year 1				Expected Amount Available Reminder of ConPlan $	Narrative Description
			Annual Allocation: $	Program Income: $	Prior Year Resources: $	Total: $		
HOPWA	public - federal	Permanent housing in facilities Permanent housing placement Short term or transitional housing facilities STRMU Supportive services TBRA	153,742	0	0	153,742	0	
ESG	public - federal	Conversion and rehab for transitional housing Financial Assistance Overnight shelter Rapid re-housing (rental assistance) Rental Assistance Services Transitional housing	2,064,352	0	0	2,064,352	0	
NHTF	Public - federal	Acquisition Multifamily rental new construction Multifamily rental rehab	3,000,000			3,000,000		

Table 51 - Expected Resources – Priority Table

Explain how federal funds will leverage those additional resources (private, state and local funds), including a description of how matching requirements will be satisfied

The HOME match requirement is met through tenant-based rental assistance from Minnesota Housing's Bridges program, which provides a rent subsidy for up to five years to persons with mental illness until they can obtain a permanent rent subsidy; and the State Housing Trust Fund program. The CDBG match will be a mix of private, local, and state resources such as loans from local banks, weatherization funds, Minnesota Housing rehabilitation loans. CDBG-Economic Development match is through local initiatives, local banks, owner equity.

DHS has required its sub-recipients to provide eligible matching funds at the sub-recipient level for each dollar requested in ESG funding. To ensure compliance with the requirement, DHS has required identification of matching funds in all sub-recipient contracts and reimbursement requests. In addition, review of ESG matching funds has been added to the ESG Monitoring Protocol for ESG subrecipients and ensures that the adequate documentation of eligibility exists for funds used to match ESG. Because of the diverse nature of local homelessness program funding, it is not possible to summarize at the State level the exact types and amounts of each funding source, but the most common sources of matching funds include state Family Homelessness Prevention and Assistance Funds (FHPAP), state and HUD Transitional Housing Program funds (for scattered-site programs), Minnesota Community Action Grants, Private Foundations and Individual Donations.

Minnesota Housing's Affordable Rental preservation program (HOME) leverages other agency, private, and low-income housing tax credit investment.

If appropriate, describe publically owned land or property located within the jurisdiction that may be used to address the needs identified in the plan

The State will not use state-owned land to address the needs identified in the plan, though CDBG recipients may use locally-owned land.

Discussion

AP-20 Annual Goals and Objectives – 91.320(c)(3)&(e)

Goals Summary Information

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
1	Provide decent affordable housing-DEED	2017	2021	Affordable Housing	Non-Entitlements	Low-Moderate Income Renter and Owner Households	CDBG: $9,562,500	Rental units rehabilitated: 100 Household Housing Units Homeowner housing Rehabilitated: 300 Household Housing Units
2	Enhance affordable housing Opportunities- MH	2017	2021	Affordable Housing	Statewide	Low-Moderate Income Renter and Owner Households	HOME: $5,978,110 NHTF: $3,000,000	Rental units rehabilitated: 199 Household Housing Units Rental units constructed: 199 Household Housing Units
3	Promote Economic Development	2017	2021	Non-Housing Community Development	Non-Entitlement	Economic Opportunities	CDBG: $1,312,500	Jobs created/retained: 75 Jobs Businesses assisted: 10 Businesses Assisted Facade treatment/business building rehabilitation: 75 Business
4	Facilitate Housing and Service for the Homeless	2017	2021	Homeless	Statewide	Homelessness	ESG: $1,884,847	Tenant-based rental assistance / Rapid Rehousing: 403 Households Assisted Homeless Person Overnight Shelter: 11,152 Persons Assisted Homelessness Prevention: 43 Persons Assisted

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
5	Provide Funds for Special-Needs Housing & Services	2017	2021	Non-Homeless Special Needs	Statewide	Human Services	HOPWA: $171,072	Homelessness Prevention: 220 Persons Assisted
6	Address Public Facility and Infrastructure Needs	2017	2021	Non-Housing Community Development	Non-Entitlement	Public Facilities and Infrastructure	CDBG: $4,125,033	Public Facility or Infrastructure Activities other than Low/Moderate Income Housing Benefit: 440 Persons Assisted Public Facility or Infrastructure Activities for Low/Moderate Income Housing Benefit: 700 Households Assisted

Table 52 – Goals Summary

Goal Descriptions

1	**Goal Name**	Provide decent affordable housing-DEED
	Goal Description	*Fund housing rehabilitation activities for low to moderate income homeowner and rental households through CDBG funds, DEED.*
2	**Goal Name**	Enhance affordable housing Opportunities
	Goal Description	*Fund housing activities for low-to-moderate income rental households, including renovation and new construction*
3	**Goal Name**	Promote Economic Development
	Goal Description	*Encourage robust economic growth through the development and retention of businesses and jobs throughout the State. $1,312,500 in CDBG and $2,483,306 in CDBG-ED funds will be used.*
4	**Goal Name**	Facilitate Housing and Service for the Homeless

	Goal Description	*Provide funds for service providers to meet the various housing and service needs of the homeless population in Minnesota, including emergency shelter*
5	**Goal Name**	Provide Funds for Special-Needs Housing & Services
	Goal Description	*Continue to fund programs that provide housing and services to special needs populations, including those with HIV/AIDS*
6	**Goal Name**	Address Public Facility and Infrastructure Needs
	Goal Description	*Address community needs through improvements to public facilities and infrastructure*

AP-25 Allocation Priorities – 91.320(d)

Introduction:

The following section describes the allocation priorities for FY 2017.

Funding Allocation Priorities

	Create Decent and Affordable Housing	Enhance affordable housing Opportunities (%)	Promote Economic Development (%)	Facilitate Housing and Service for the Homeless (%)	Provide Funds for Special-Needs Housing & Services (%)	Address Public Facility and Infrastructure Needs (%)	Total (%)
CDBG	64	0	9	0	0	27	100
HOME	0	100	0	0	0	0	**100**
HOPWA	0	0	0	0	100	0	**100**
ESG	0	0	0	92	8	0	**100**
NHTF	0	100					**100**

Table 53 – Funding Allocation Priorities

Reason for Allocation Priorities

Percentages include administration costs. Allocation priorities are based on needs in market study, needs assessment and public input.

CDBG: CDBG spending will be split between affordable housing, economic development and public facilities and infrastructure. These spending priorities have been established through the planning process of where the most need is, as well as the capacity to make an impact on those in need in the State of Minnesota. The amount spent on each category is determined both by past performance and the current ability to meet housing and community development needs in the State. Economic Development funds will be utilized to support the Minnesota Investment Fund Program by providing gap financing to businesses creating jobs that benefit LMI workers.

HOPWA: Federal regulations dictate both the geography in which HOPWA funds may be used and the beneficiaries. Because only 15% of persons living with HIV/AIDS live in counties outside the seven-county Twin Cities metropolitan area and most are already housed, preventing homelessness is a more cost-effective approach than housing development or tenant-based rent assistance.

NHTF: National Housing Trust Funds will be directed towards efforts to enhance affordable housing opportunities through new

AP-55 Affordable Housing – 24 CFR 91.320(g)

Introduction:

The term affordable housing that is used in 24 CFR 92.252 and 92.254 includes several elements that are not requirements of ESG, HOPWA and CDBG. Therefore, the only units that receive federal assistance that can be assured of meeting the standard of "affordable housing" and are described here are HOME units.

One Year Goals for the Number of Households to be Supported	
Homeless	0
Non-Homeless	382
Special-Needs	0
Total	382

Table 57 - One Year Goals for Affordable Housing by Support Requirement

One Year Goals for the Number of Households Supported Through	
Rental Assistance	0
The Production of New Units	0
Rehab of Existing Units	382
Acquisition of Existing Units	0
Total	382

Table 58 - One Year Goals for Affordable Housing by Support Type

Discussion:

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Board Agenda Item: 8.C
Date: 8/25/2016

Item: Report on Manufactured Housing

Staff Contact(s):
Margaret Kaplan, 651.296,3617, margaret.kaplan@state.mn.us

Request Type:

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

Summary of Request:
Staff will present information about Manufactured Housing followed by discussion with the Board.

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):
- Background
- Park Closure Process Flow Chart

Background on Manufactured Home Parks

Manufactured home communities are a significant source of unsubsidized affordable housing in Minnesota. There are currently over 600 parks that are directly licensed by the state though the Minnesota Department of Health with many more licensed with delegated authority by local and regional jurisdictions. There are over 80,000 manufactured homes in Minnesota, over half of which are in manufactured home parks. The other half are on private land.

Manufactured homes are distinguishable from site-built or modular homes because they are factory built on a chassis according to the HUD construction code. While at its inception some manufactured homes were considered mobile, the “mobile home” is largely a myth. Manufactured homes are anchored in place or placed on a foundation with the intention of staying on one site for their entire useful life. Utilizing current construction techniques, the useful life of manufactured homes is equivalent to that of site-built or stick-built homes.

Owners of manufactured homes in manufactured home parks own their homes but rent the underlying land. For many households, manufactured home communities remain a safe, affordable, and attractive option. However, since relocating a home is either prohibitively expensive or impossible due to the age or condition of the home, households in manufactured home communities are uniquely vulnerable to changes in rules governing the park, rent increases, repair issues, and abuses.

Manufactured homes can be placed on private land and converted to real estate as an improvement to the land. However, manufactured homes in parks are considered chattel or personal property and are not subject to laws dictating real estate recordings or mortgage financing. This makes transfers from individual to individual easy, and cash transactions for older, lower value homes are common. However, this also means that purchasers are subject to high interest rates, limited financing options, and marginal protections in the event of a default compared to the mortgage foreclosure process.

Park Closures and the Manufactured Housing Relocation Trust Fund

Minnesota Statute 327C.095 details the process and rights of homeowners in the case of a manufactured home park closure. The original statute was established in 1987 in response to a large park closure in the city of Bloomington. The statute requires a park owner who is intending to close a park to issue a nine month notice to all homeowners. Subsequent changes require that the owners of the park also must provide the notice to the Department of Health, the local planning jurisdiction, and Minnesota Housing. The statute additionally provides that the local jurisdiction must have a public hearing a minimum of 60 days prior to the park closure. In 1991 the statute was amended to allow local jurisdictions to require that the owner, the purchaser, or other entities involved in the transaction and closure to provide relocation compensation to displaced homeowners. While this was a mechanism for providing some compensation for some homeowners, the existence or level of compensation was entirely dependent on the individual jurisdiction.

The manufactured housing relocation trust fund was created in 2007 to ensure that all owners of manufactured homes in manufactured home parks had access to some level of compensation in the event of a full or partial park closure. The statue was most recently amended in 2016.

The current funding mechanisms for the trust fund include: (1) contributions from individual homeowners of $15 a year, collected though rent and paid by park owners to Minnesota Management and Budget; and(2) payments from park owners for each displaced homeowner, up to statutory limits based on the value of the land.

The statute was also amended several years ago to provide for a “blink off” of the collection of contributions into the trust fund when the balance of the fund exceeds one million dollars. Due to this provision, contributions to the trust fund ceased in 2012.

When a park closure statement is issued, homeowners are informed of the potential availability of relocation compensation under the trust fund. At the public hearing, the municipality or other responsible jurisdiction must appoint a neutral third party to administer the park closing process. The third party must be agreed upon by the park owner and the homeowners. Compensation for the third party is paid out of the trust fund. The third party is responsible for working with the homeowners to collect applications for trust fund payments and for approving the applications. The applications are then sent to Minnesota Housing for payment.

The amount of compensation is determined in part by actual costs of moving the home or the actual value of the home if the home cannot be relocated. Due to limitations of available funding, the current version of the statute establishes statutory maximums and minimums for compensation, which are listed here. Buyouts occur when a home cannot be relocated, and disposal costs for these homes are paid by the park owner.

Relocation Reimbursement Limits. Relocation reimbursement is based on actual costs, up to the maximum amount listed.

	Pre-2016	Current
Single Wide	$ 4,000	$ 7,000
Double Wide	$ 8,000	$ 12,500

Buyout Reimbursement Limits. Buyout is paid based on actual value of home. 2016 legislation added a minimum amount for buyout.

	Pre-2016		Current	
	Minimum	**Maximum**	**Minimum**	**Maximum**
Single Wide	Home Value	$ 5,000	$ 2,000	$ 8,000
Double Wide	Home Value	$ 9,000	$ 4,000	$ 14,500

Other Manufactured Housing Considerations

The manufactured housing relocation trust fund was established during a period of rapid park closures. At the time an average of five parks were closing every year. The pace of closures slowed significantly during the recession as the slowed pace of development made manufactured home communities less desirable for redevelopment. The past five reporting years have included three park closures with small numbers of displaced homeowners and relatively low payouts from the fund.

However, as development has picked up in communities around the state, the pace of park closures has increased. There are currently five active park closures, some as small as three homes and others as large as 97 homes. While the trust fund can provide a limited amount of compensation to displaced households, it does not fully compensate people for the loss of their homes and their communities.

Along with increased development pressure, aging infrastructure in manufactured home parks presents a significant challenge leading to park closures and creating a challenge for preservation strategies. There are ongoing discussions with stakeholders about others sources of support for manufactured housing infrastructure including existing Minnesota Housing programs. Manufactured housing infrastructure is also an allowable use under the newly enacted Workforce and Affordable Homeownership Program for which Minnesota Housing received a one-time state appropriation of $750,000 in 2016.

There are a number of preservation strategies that are being deployed in Minnesota. One model of preservation is Resident Owned Community, or the ROC model. Minnesota Housing has a program to participate in financing ROC purchases in participation with ROC USA, a national organization dedicated to park preservation through resident ownership. The model has primarily been used for proactive preservation due to the time intensive nature of creating a resident ownership structure. Northcountry Cooperative Foundation has successfully converted six parks in Minnesota to resident ownership, though none are currently in process for participation loans at this time.

Minnesota Housing also provides support for very low income homeowners (including owners of manufactured homes located on private land and classified as real estate) to address significant repair issues through the Rehabilitation Loan Program. We have also provided resources for repair and replacement of distressed manufactured homes using the Community Homeownership Impact Fund. Addressing the condition of individual homes ensures that the housing is healthy and safe for current homeowners, and can overcome concerns about the use of public investment in community preservation strategies.

Another preservation opportunity is utilization of the statutory right of first refusal. The right of residents to collectively purchase their park or to authorize a nonprofit to purchase the park on their behalf was established in 1991, but has never been successfully utilized. The current potential purchase of Lowry Grove in Saint Anthony Village is an attempt to utilize the right of first refusal, however, despite the language of the statute, the owner rejected the offer by Aeon on behalf of the homeowners and completed the sale to a third party. The Minnesota Attorney General has submitted a brief in support of the homeowners and a hearing is expected on August 26 on preliminary motions.

Park Closure Process Flow Chart

Nine Month Closure Statement

- Issued by current park owner to all homeowners, local planning jurisdiction, Minnesota Department of Health, and Minnesota Housing
- Requirements outlined in Minn. Statutes 327C.095
- Must include information about other parks in a 25 mile radius, potential costs of relocating homes, and availability of resources under the Manufactured Housing Relocation Trust Fund

Public Hearing

- Must be at least 60 days prior to the proposed park closure
- The local planning jurisdiction appoints a third party neutral to work with homeowners and accept applications and associated paperwork for Trust Fund applications

Payment from Relocation Trust Fund

- Third party works with homeowners to complete application
- Homeowners submit applications through the third party neutral for relocation costs or for value of home
- Payments are made to eligible homeowners or contractors within 45 days of receipt of application
- Park owner makes payment into fund for costs of compensation up to $3,250 per household

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Minnesota Housing Finance Agency

Board Agenda Item: 9.A
Date: 8/25/2016

Item: Report of Complaints Received by Agency or Chief Risk Officer

Staff Contact(s):
Will Thompson, 651.296.9813, will.thompson@state.mn.us
Tom O'Hern, 651.296.9796, tom.ohern@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☐ Discussion
- ☒ Information

Summary of Request:
The Agency and the Chief Risk Officer have developed procedures for the receipt, retention and treatment of complaints received by the Agency or the Chief Risk Officer regarding conflict of interest, misuse of funds and fraud that have been submitted by any person external or internal to the Agency.

Update from the Chief Risk Officer regarding complaints of potential conflict of interest, alleged misuse of funds and alleged fraud that have been reported to the Agency or the Chief Risk Officer since the Board adopted Reporting Non-Compliance with Agency Policy and Procedures on January 27, 2011.

Fiscal Impact:
There were 59 instances of potential conflicts of interests, alleged misused funds and alleged fraudulent activity for the 67-month period beginning December 2010 and ending July 2016. A total of $523,217 has not been recovered: $445,674 in misused funds (unchanged from last quarter), and $77,543 in fraudulent activity (unchanged from last quarter).

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):
Reporting Non-Compliance with Agency Policy and Procedures.

Board Agenda Item: X.X
Attachment: Report

Reporting Non-Compliance with Agency Policy and Procedures

This reporting is designed to convey to the Board any complaints received, their current status, and their resolution, if one has been reached.

An updated report will be delivered to the Board quarterly, with the next report due November 17, 2016.

Complaints Received by Agency or Chief Risk Officer

Complaint / Resolution	Status: Closed	In Process	Grand Total
Conflict of Interest	**14**		**14**
External Employment Approved	2		2
Insufficient Evidence	3		3
Seller Repurchase	2		2
Issue Resolved	2		2
Seller Indemnification	5		5
Fraud / Embezzlement	**7**		**7**
Funding Transferred to Different Entity	1		1
Insufficient Evidence	3		3
FBI Investigation Initiated	1		1
Seller Repurchase	2		2
Misuse of Funds	**34**	**4**	**38**
Insufficient Evidence	4		4
Issue Cured	4		4
Negotiated Settlement	10		10
None – Nonviable Counterparty	2		2
OLA Forwarded Complaint to County	1		1
Revenue Recapture	4		4
Entry of Judgment	2		2
None Yet		4	4
None - Affordability Period Expired	3		3
Funds Returned to Agency	4		4
Grand Total	**55**	**4**	**59**

Key Trends:

- One new alleged misuse of funds case opened from May 2016 through July 2016
- No cases closed from May 2016 through July 2016

Report Legend:

- Complaint – An allegation or inquiry of non-compliance with Agency policy and procedures
- Status – Can be either In Process or Closed
- Resolution – How was the complaint resolved (Closed Status) or current disposition (In Process)

Board Agenda Item: 9.B
Date: 8/18/2016

Item: 2016 Affordable Housing Plan and 2016-19 Strategic Plan: Third Quarter Progress Report

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 has attached for your review the third quarter progress report for the 2016 Affordable Housing Plan and the 2016-19 Strategic Plan.

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

2016 Affordable Housing Plan and 2016-19 Strategic Plan Third Quarter Progress Report

(October 1, 2015 – September 30, 2016)

August 18, 2016

Overview

Overall, the Agency has had strong activity in the first three quarters of the 2016 AHP. Tables 1-3 summarize the activities. The notes after the tables provide a brief discussion of each line item. The overall story has not changed since the first quarter report.

1. Single family mortgage production continues to be robust. If lending trends from the first three quarters of the AHP continue, production in 2016 should reach around $590 million and about 3,800 loans. Because regulatory changes and the possibility of rising interest rates and home prices made the expected level of 2016 lending uncertain, we only budgeted $510 million for the Home Mortgage Loan program. We will exceed this forecast.

2. Overall production for owner-occupied home improvement and rehabilitation is relatively on track; however, very strong production under the owner-occupied rehabilitation portion of the Impact Fund RFP offsets slower than forecasted activity under the Fix-Up program.

3. We will fall short of our forecasted production for multifamily new construction and rehabilitation. Minnesota Housing funding per unit for these developments was higher than expected. The line notes later in this document provide more details. Tables 4-5 provide historical data on total development costs and agency funding per unit.

Table 6 at the end of this document shows funding changes in the 2016 AHP since the Board originally approved it in September of 2015.

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

Quarter 3 of 2016 AHP (75% through AHP)

	Original AHP Forecast	Actual To-Date	Portion of AHP Forecast Completed
Single Family Production – Homes			
1. First Mortgages (Net Commitments)	3,543	2,774	78%
2. Other Opportunities*	231	210	91%
3. Owner-Occupied Home Improvement/Rehabilitation	1,431	1,056	74%
4. Total	*5,205*	*4,040*	*78%*
Homebuyer Education, Counseling and Training - Households			
5. Homebuyer Education*	13,540	10,092	75%
Multifamily Production – Rental Units			
6. New Rental Construction	791	569	72%
7. Rental Rehabilitation	2,799	1,124	40%
8. Asset Management	138	0	0%
9. Total	*3,728*	*1,693*	*45%*
Rental Assistance and Operating Subsidies - Households			
10. Agency Funded Rental Assistance and Operating Subsidies*	4,082	3,598	88%
11. Section 8 and 236 Contracts	30,786	31,254	102%
12. Total	*34,868*	*34,852*	*100%*
Homeless Prevention			
13. Family Homeless Prevention and Assistance Program (FHPAP)* & Housing Opportunities for Persons with AIDS (HOPWA)	7,621	5,625	74%
Build Sustainable Housing			
14. Percentage of New Construction or Rehabilitation Units that Meet Standard of Green Communities Certification or B3:			
a. Single Family	50%	57%	**
b. Multifamily	95%	83%	**
Increase Homeownership for Households of Color			
15. Percentage of First-Time Homebuyer Mortgages Going to Households of Color or Hispanic Ethnicity	27%	32.6%	**
Earn Revenue to Sustain Agency and Fund Pool 3			
16. Revenues in excess of Expenses – State Fiscal Year 2016*****	***	$17.9 million****	**
17. Return on Net Assets (%) – State Fiscal Year 2016*****	***	2.6%****	**

* Funds for Habitat for Humanity, homebuyer education, multifamily rent assistance and operating subsidies, and FHPAP are committed by the Board in July-September, at the end of an AHP. Thus, funds committed under the 2015 AHP (in July-September 2015) fund program activity in 2016 (October 1, 2015 to September 30, 2016). To reflect 2016 program activity for these programs, this table shows the households supported in 2016 with 2015 AHP funds. For all other programs, the table shows the households and housing units supported by funds provided in the 2016 AHP.

** Not Applicable.

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

**** Unaudited.

***** Sustainable Core only

Table 2: Distribution of Resources

Quarter 3 of 2016 AHP (75% through AHP)

	AHP Forecast	Actual To-Date
18. Percentage of Originally Budgeted Funds that are Committed Under the AHP	>95% by end of the year	78%

Table 3: Management of Loan Assets

Quarter 3 of 2016 AHP (75% through AHP)

	AHP Forecast/Benchmark	Actual To-Date
19. Delinquency Rate for Combined Whole Loan & MBS Single-Family Portfolio (3/31/16)	1.83%*	3.75%**
20. Foreclosure Rate for Combined Whole Loan & MBS Single-Family Portfolio (3/31/16)	0.47%*	0.97**
21. Percentage of Multifamily Developments with Amortizing Loan on Watch List	Under 10%	6.2%
22. Percentage of Outstanding Multifamily Loan Balances on Watch List	Under 10%	3.8%

* This is a benchmark, rather than a forecast, and it is based on a Minnesota Housing analysis of all mortgages in the state as reported by the Mortgage Bankers Association. The benchmark applies to March 2016.
**The information presented is on an Agency-wide basis and includes both whole loan and MBS production as part of the loan portfolio. As such, the information is not directly relevant to the security of any bonds of the Agency and should not be relied upon for that purpose. The Agency publishes separate disclosure reports for each of its bond resolutions.

Discussion of Items in the Table

- **Line 1:** Lending for single-family first mortgages continues to be strong, with production at 78% of the original forecast when we are 75% of the way through the year. While we are past the prime home-buying months, there are still a few strong months left. If lending trends from the first three quarters of the AHP continue, production in 2016 should reach about $590 million and about 3,800 loans, when we originally forecasted $510 million and just over 3,500 loans.

- **Line 2:** These housing opportunities include new construction and acquisition/rehabilitation funded through the Single-Family Division's Impact Fund. With the completion of the Impact Fund's RFP, we have nearly reached our forecasted production for the year. This line item also includes the Habitat for Humanity Initiative, which will see additional activity during the year as more homes are financed.

- **Line 3:** Overall, production for owner-occupied home improvement and rehabilitation is relatively on track. Very strong production under the owner-occupied rehabilitation portion of the Impact Fund RFP has offset slower than forecasted activity under the Fix-Up program. Demand for the Fix-Up program continues to be lower than we would ideally want, in all likelihood, because home values are up and homeowners are using refinancing and home equity lines of credit for their financing.

- **<u>Line 4:</u>** Overall, production in the Single Family – Homes category was been strong, particularly for first-mortgage lending and the Impact Fund.

- **<u>Line 5:</u>** Production for Homebuyer Education is right on track at 75% of the forecast.

- **<u>Line 6</u>**: After completing the selection process for the Multifamily Division's Consolidated RFP, we are a little short of our forecasted production of 791 new rental units. We achieved the current production by devoting 15% more funding than anticipated to new construction. Given the state's low vacancy rates, additional funding for new construction is appropriate.

  As Table 4 shows, our funding per unit for new construction in 2016 is much higher than in previous years. The per-unit funding level was $173,000, when we forecasted $108,000. There are several explanations for this outcome.

  - As shown in Table 5, the average TDC per unit in 2016 was been higher than expected - $229,000 rather than the anticipated $200,000 to $210,000. Recently, construction costs have risen faster than the general rate of inflation, primarily because of labor costs. Developers may have added extra costs to their proposed construction budgets this year with the expectation that this trend would continue. Also, we have anecdotally heard that some developers have decided to not pursue and claim cost-containment points when applying for housing tax credits because of the uncertainty in containing construction costs. In the draft 2018 Qualified Allocation Plan (QAP) for tax credits, we are increasing the cost containment priority from 4 to 6 points, which will increase the incentive for developers to pursue cost containment.

Table 4: Average Minnesota Housing Funding per Unit, by AHP Year

	2013	2014	2015	2016*	2013-2014 Combined**	2015-2016 Combined**
New Construction	123,000	94,000	87,000	173,000	$109,000	$112,000
Rehabilitation	47,000	36,000	36,000	100,000	$40,000	$48,000

*Partial year activity
**Weighted average. With respect to 2015-16, more developments and units were funded in 2015 than 2016.
SOURCE: Minnesota Housing, Results Management Reports - RFP Programs

Table 5: Average Total Development Costs (TDC) per Unit, by AHP Year

	2013	2014	2015	2016	2013-2014 Combined	2015-2016 Combined
New Construction	$208,000	$210,000	189,000	229,000	$209,000	$200,000
Rehabilitation	$106,000	$115,000	98,000	128,000	$109,000	$103,000

SOURCE: Minnesota Housing, RFP Selection Reports for the Board

  - The projects funded under the 2016 AHP were less effective in leveraging other resources. For example, the projects (both new construction and rehabilitation) that we funded under the 2015 AHP will receive about $84 million of syndication proceeds from 4% tax credits, while projects funded under the 2016 AHP are only expected to receive $19 million. The 2015 AHP was unusual because it included $80 million of Housing Infrastructure Bond proceeds, which is a great resource to pair with and leverage 4% tax credits. The 2016 AHP only has $22 million of Housing Infrastructure Bond proceeds. Nevertheless, we had hoped that the 2016 projects would access a little over $34 million in syndication proceeds from 4% credits, rather than the $19 million that occurred.

- In some years, the stars align, and developers propose projects that use housing resources from the Agency very efficiently; in other years, they do not align as well. Last year (2015) was a great year. As shown in Tables 4 and 5, TDC and agency-funding per unit were substantially lower than other years. This year (2016) was not a great year. However, if you combine the two years, the averages are similar to what we have seen in previous years, as shown in the last two columns of each table.

While the TDC and funding levels per unit for 2016 are a concern, outcomes from just one year do not make a trend. Nevertheless, we will continue to monitor and evaluate costs and funding levels and take action if needed.

- **<u>Line 7:</u>** Through June 30, which includes completing the Multifamily Division's Consolidated RFP, we have only reached 40% of our forecasted production for rental rehabilitation. There are two primary explanations:

  - The factors leading to the higher costs and limited leveraging that applied to new construction also apply to rehabilitation. See the rehabilitation lines of Tables 4 and 5.

  - Finally, so far this year, we have only awarded 50% of the anticipated funding for rehabilitation. While a shift of funds to new construction accounted for part of the shortfall, unused funds account for the rest. There is a sizable amount of funding still available for pipeline deals, including first mortgages and deferred loans. For example, there are currently nearly $3.8 million available from the Preservation Affordability Rental Investment Fund (PARIF); and with the recent federal appropriations, there are over $6 million available for preservation through the HOME program.

- **<u>Line 8:</u>** There has been no new production under Asset Management. We have reoriented this program to focus on shorter-term and immediate needs of the properties in our portfolio, and we are directing properties to the RFP funding process for longer-term and permanent needs. By targeting the program on shorter-term and immediate needs, forecasting the amount and timing of program demand is more uncertain.

- **<u>Line 9:</u>** Overall, as discussed in the previous discussion, rental production has been lower than forecasted.

- **Line 10:** Production for rental assistance and operating subsidies is relatively on track. The rent assistance programs are serving 88% of their forecasted households so far. With the turnover of vouchers to new households, the programs will come closer to their forecasted production by the end of the year.

- **Line 11:** The administration of Section 8 contracts is performing as expected. This is a very stable program with consistent funding and households served.

- **Line 12:** Overall, rent assistance and operating subsidy production (federal and state) is performing as expected.

- **Line 13:** FHPAP is performing as expected, reaching 74% of the forecasted households after the first three quarters.

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

  On the single-family side, all of the homes receiving funds under the Community Homeownership Impact Fund for new construction or rehabilitation meet the standard. However, the Fix-Up Fund (FUF) home improvement program is market driven, and borrowers are not required to follow sustainable design criteria in their home improvement efforts. Thus, the single-family percentage is well below 100%.

  Typically, the multifamily percentage is typically close to 100%. In a given year, a few projects have circumstances that make them exempt from the sustainable design criteria.

- **Line 15:** The Agency continues to meet its goal of serving communities of color or Hispanic ethnicity through homeownership. The Agency estimates that just over 25% of renter households that are income eligible for Minnesota Housing first mortgages are of color or Hispanic ethnicity. The achievement of nearly 33% indicates that the Agency is effectively reaching these households.

- **Lines 16 and 17:** For the 2016 State Fiscal Year, we earned $17.9m in profits from the Sustainable Core, providing a 2.6% return on our Sustainable Core net assets (measured at the beginning of the State Fiscal Year)

- **Line 18:** We committed 78% of the funds originally budgeted in the 2016 AHP in the three quarters of the year, which is on track. While we expect pipeline programs to commit about 75% of their funds in the first half of the year, we have already completed our largest RFPs, which commit all their funds at one time. The Agency's two largest programs (Home Mortgage Loans with $590 million and Section 8 Contract Administration with $181 million) operate on a pipeline basis with funding spread throughout the year.

- **<u>Lines 19-20:</u>** The Agency's 60+ day delinquency rate (3.75%) for single family first mortgages (whole loan and MBS) is higher than the market-wide benchmark (1.83%) for Minnesota, which is based on data from the Mortgage Bankers Association. The delinquency rate includes loans in foreclosure but a sheriff sale has not occurred. Minnesota Housing often lends to borrowers who face a barrier to homeownership.

  The Agency also looks closely at delinquency rates for recently purchased loans that go into our Mortgage Backed Securities (MBS) to determine if our current policies and practices need to be adjusted. According to US Bank, which services our MBS loans, our 60+ delinquency rate for loans purchased in the last 24 months (including loans in foreclosure) was 1.62% in June 2016, which is below our "peer" benchmark of 1.81%, which is based on data from other housing finance agencies.

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

Changes to 2016 AHP Funding Levels

Table 6 presents funding changes to the 2016 AHP from the time the Board approved the Plan in September 2015 through June 30, 2016. At the September 25 meeting, staff is recommending that an additional $80 million be budgeted for Home Mortgage Loans (line 1). This increase is not reflected in Table 6.

Table 6: 2016 AHP with Updates

		Original Budget	Delegated Change	Board Approved Amendment	Revised Budget
	Homebuyer Financing and Home Refinancing	**$553,700,000**	**$1,826,044**	**$7,929,550**	**$563,455,594**
1	Home Mortgage Loans	$510,000,000	$0	$0	$510,000,000
2	Targeted Mortgage Opportunity Program	$4,000,000	$0	$0	$4,000,000
3	Mortgage Credit Certificates (MCC)	$15,400,000	$0	$2,500,000	$17,900,000
4	Deferred Payment Loans	$11,000,000	$1,538,944	$1,429,550	$13,968,494
5	Monthly Payment Loans	$11,300,000	$287,100	$4,000,000	$15,587,100
6	Habitat for Humanity Initiative	$2,000,000	$0	$0	$2,000,000
	Homebuyer/Owner Education and Counseling	**$2,267,000**	**$2,099**	**$15,000**	**$2,284,099**
7	Homebuyer Education, Counseling & Training (HECAT)	$1,517,000	$2,099	$15,000	$1,534,099
8	National Foreclosure Mitigation Counseling (NFMC)	$0	$0	$0	$0
9	Enhanced Homeownership Capacity Initiative	$750,000	$0	$0	$750,000
	Home Improvement Lending	**$25,980,000**	**$520,796**	**$0**	**$26,500,796**
10	Home Improvement Loan Program	$17,380,000	$0	$0	$17,380,000
11	Rehabilitation Loan Program (RLP)	$8,600,000	$520,796	$0	$9,120,796
	Rental Production- New Construction and Rehabilitation	**$128,395,925**	**$11,720,346**	**$0**	**$140,116,271**
12	Low and Moderate Income Rental (LMIR)	$70,000,000	$0	$0	$70,000,000
13	MAP Lending (Multifamily Accelerated Processing)	$15,000,000	$0	$0	$15,000,000
14	Flexible Financing for Capital Costs (FFCC)	$3,500,000	$0	$0	$3,500,000
15	Low-Income Housing Tax Credits (LIHTC)	$9,308,770	$727,029	$0	$10,035,799
16	Housing Trust Fund (Capital from Housing Infrastructure Bonds)	$10,849,200	$3,654,483	$0	$14,503,683
17	Preservation - Affordable Rental Investment Fund (PARIF)	$9,492,171	$362,274	$0	$9,854,445
18	Preservation - HOME	$814,938	$7,001,549	$0	$7,816,487
19	Preservation - Publicly Owned Housing Program (POHP)	$1,300,378	$42,648	$0	$1,343,026
20	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$8,130,468	-$67,637	$0	$8,062,831
	Rental Assistance Contract Administration	**$181,322,117**	**$0**	**$0**	**$181,322,117**
21	Section 8 - Performance Based Contract Administration	$129,000,000	$0	$0	$129,000,000
22	Section 8 - Traditional Contract Administration	$52,000,000	$0	$0	$52,000,000
23	Section 236	$322,117	$0	$0	$322,117
	Resources to Prevent and End Homelessness	**$30,325,667**	**$5,745**	**$0**	**$30,331,412**
24	Housing Trust Fund (HTF)	$13,948,678	$0	$0	$13,948,678
25	Ending Long-Term Homelessness Initiative Fund (ELHIF)	$1,722,601	$0	$0	$1,722,601
26	Bridges	$4,695,108	$0	$0	$4,695,108
27	Section 811 Demonstration	$1,217,100	$0	$0	$1,217,100
28	Family Homeless Prevention and Assistance Program (FHPAP)	$8,594,184	$0	$0	$8,594,184
29	Housing Opportunities for Persons with AIDS (HOPWA)	$147,997	$5,745		$153,742
	Rental Portfolio Management	**$3,444,176**	**$0**	**$0**	**$3,444,176**
30	Asset Management	$0	$0	$0	$0
31	Asset Management - Financing Adjustment Savings	$3,444,176	$0	$0	$3,444,176
	Multiple Use Resources	**$36,995,322**	**-$1,024,716**	**-$1,444,550**	**$34,526,056**
32	Economic Development and Housing/Challenge (EDHC) - Regular	$19,575,000	$213,557	$0	$19,788,557
33	EDHC - Housing Infrastructure Bonds (HIB)	$9,480,800	-$1,397,850	$0	$8,082,950
34	EDHC - Community-Owned Manufactured Home Parks	$2,000,000	$0	$0	$2,000,000
35	Single Family Interim Lending	$1,562,000	$0	-$429,550	$1,132,450
36	Technical Assistance and Operating Support	$2,377,522	$159,577	$0	$2,537,099
37	Organizational Loans	$0	$0	$0	$0
38	Strategic Priority Contingency Fund	$2,000,000	$0	-$1,015,000	$985,000
	Other	**$3,853,641**	**$60,173**	**$0**	**$3,913,814**
39	Housing Infrastructure Bond Issuance and Other Costs	$900,000	$0	$0	$900,000
40	Manufactured Home Relocation Trust Fund	$1,196,644	-$26,363	$0	$1,170,281
41	Flood Disaster	$0	$0	$0	$0
42	Disaster Relief Contingency Fund	$1,756,997	$86,536	$0	$1,843,533
	Total	**$966,283,848**	**$13,110,487**	**$6,500,000**	**$985,894,335**

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Minnesota Housing Finance Agency

Board Agenda Item: 9.C
Date: 8/25/2016

Item: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2016

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

Request Type:

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

Summary of Request:
The Debt Management Policy calls for ongoing review and management of swap transactions including regular reporting to the Board of Directors. This reporting is accomplished through the Semi-annual Variable Rate Debt and Swap Report.

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):
- Report Highlights
- Report: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2016

- All of the Agency's swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.

- Basis Risk: During the period January 2016 to June 2016 the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation.

- Staff continues to expect that, over time, the two rates will track each other as originally anticipated.

- Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, increased from $10.5 million on January 1, 2016 to $11.6 million on July 1, 2016. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts' market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events.

- Liquidity Risk: The short-term credit ratings of all the Agency's liquidity providers were unchanged from July 1, 2015 to January 1, 2016.

- Long-term Debt, Fixed vs. Variable graph: Total outstanding variable rate debt decreased slightly to 7% of total long-term debt at July 1, 2016.

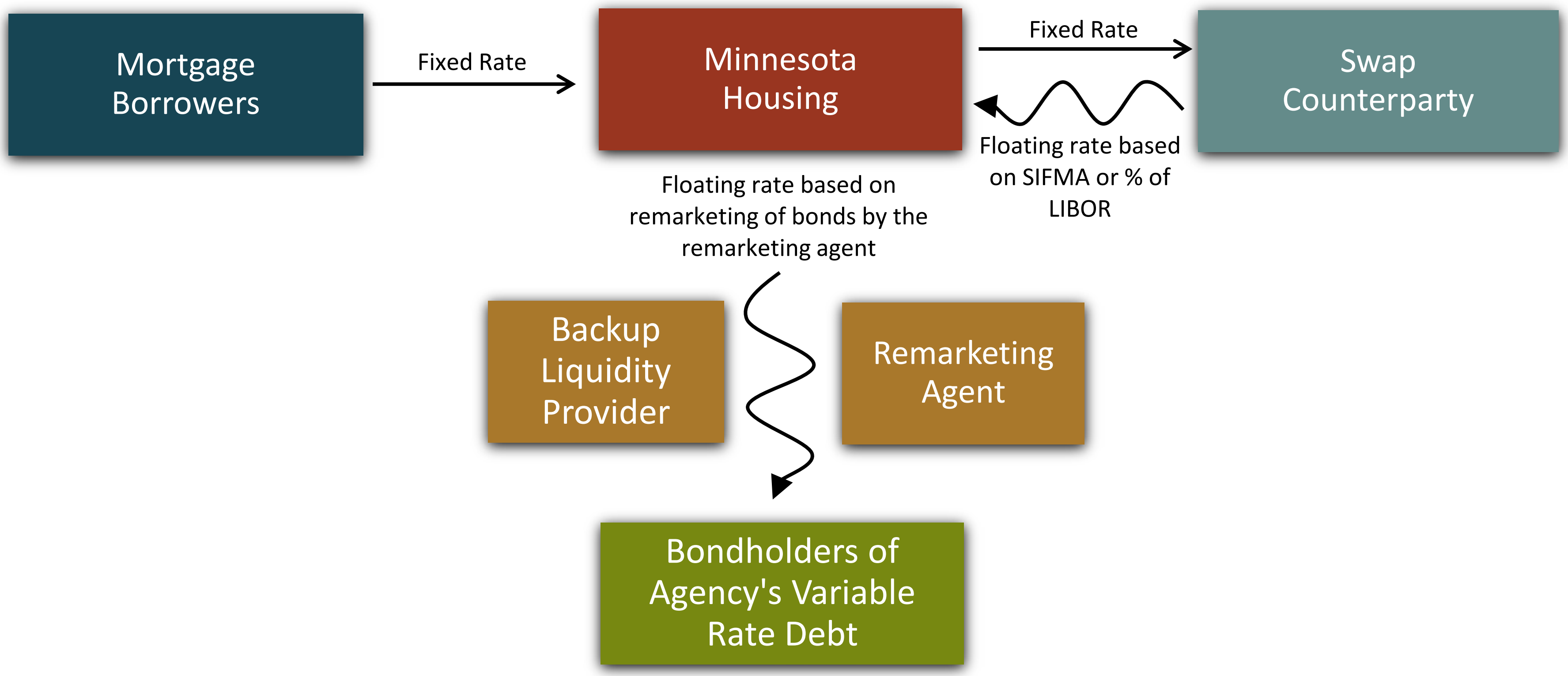
- During the six months from January 1, 2016 to July 1, 2016 the 2007E and the 2007J swaps were terminated. No new swaps were entered into during this period.

Minnesota Housing
Finance Agency

Semi-annual Variable-Rate Debt and Swap Performance Report

July 1, 2016

Floating-to-Fixed Interest Rate Swap Structure: Overview

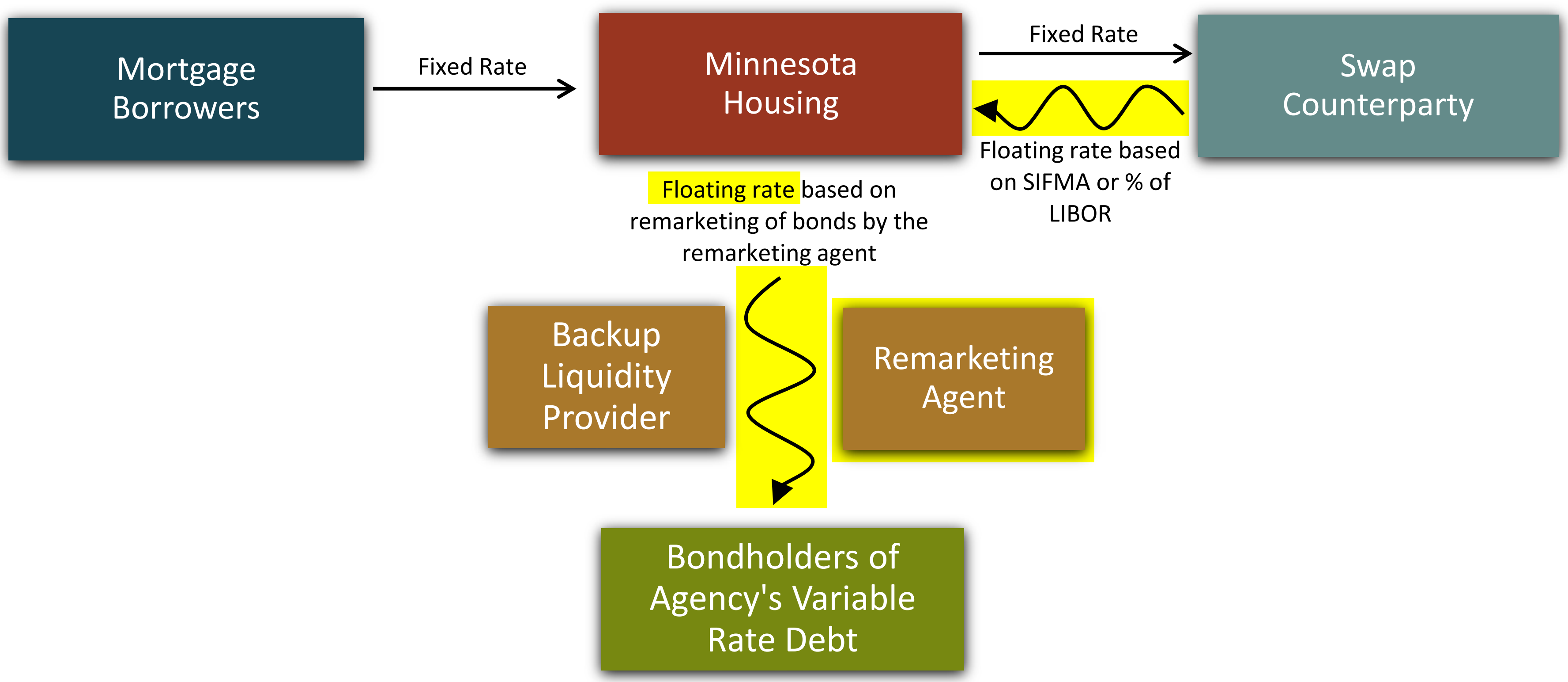


Overview of Swaps

July 1, 2016

Bond Series	Issue Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2003 B	07/23/2003	$ 25,000,000	$ 8,825,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2003 J	10/15/2003	25,000,000	7,190,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2007 S	12/19/2007	18,975,000	16,155,000	The Bank of New York Mellon	100% of SIFMA Index Rate + 6 basis points
RHFB 2007 T (Taxable)	12/19/2007	37,160,000	11,015,000	The Bank of New York Mellon	One-month LIBOR
RHFB 2008 C	08/07/2008	40,000,000	27,900,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 C	02/12/2009	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 F	12/01/2009	34,120,000	2,480,000	Royal Bank of Canada	100% of SIFMA + 8 basis points
RHFB 2015 D	08/11/2015	18,225,000	18,225,000	Royal Bank of Canada	67% of LIBOR
RHFB 2015 G	12/08/2015	35,000,000	35,000,000	Royal Bank of Canada	67% of LIBOR
	Totals	**$ 273,480,000**	**$ 166,790,000**		.

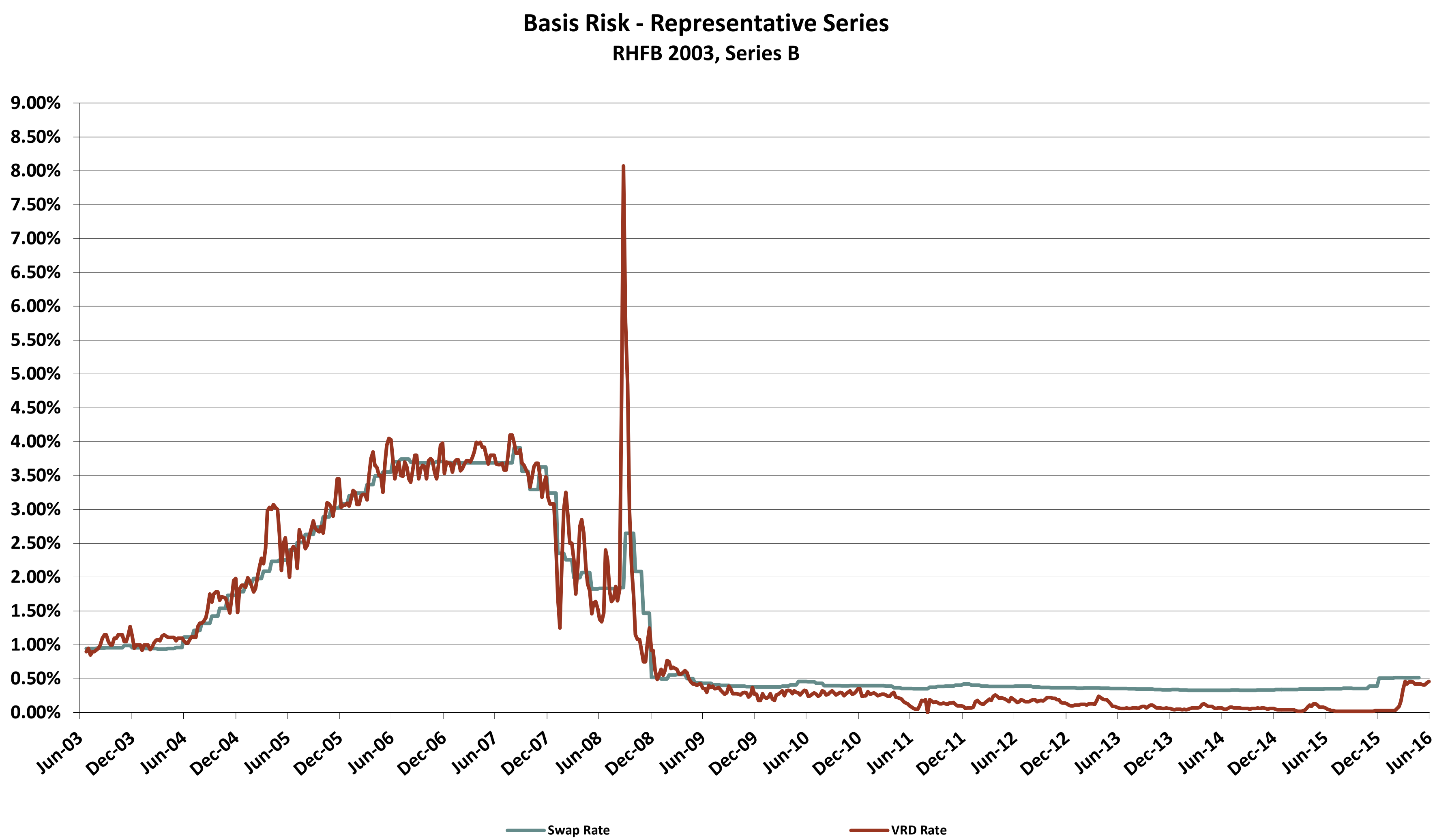
Floating-to-Fixed Interest Rate Swap Structure: Basis Risk



Basis Risk
July 1, 2016

Bond Series	Issue Date	VRDO's and Swaps Outstanding	Net Variable Interest Paid (Received) Basis Risk	Contractual Swap Fixed Rate	Effective Swap Fixed Rate	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2003 B	07/23/2003	$ 8,825,000	$ (231,551)	3.532%	**3.452%**	97.73%
RHFB 2003 J	10/15/2003	7,190,000	(165,774)	4.183%	**4.116%**	98.40%
RHFB 2007 S	12/19/2007	16,155,000	(74,541)	4.340%	**4.294%**	98.94%
RHFB 2007 T (Taxable)	12/19/2007	11,015,000	318,112	4.538%	**4.677%**	103.06%
RHFB 2008 C	08/07/2008	27,900,000	(627,395)	4.120%	**3.915%**	95.02%
RHFB 2009 C	02/12/2009	40,000,000	(939,861)	4.215%	**3.897%**	92.46%
RHFB 2009 F	12/01/2009	2,480,000	(93,448)	2.365%	**2.300%**	97.25%
RHFB 2015 D	08/11/2015	18,225,000	(12,255)	2.343%	**2.267%**	96.76%
RHFB 2015 G	12/08/2015	35,000,000	(16,390)	1.953%	**1.870%**	95.75%
	Totals	**$ 166,790,000**	**$ (1,843,103)** [1]			

[1]The cumulative net of total variable interest paid on all outstanding VRDO's ($11,718,751) and all variable interest received on the outstanding swaps ($13,561,855).


Basis Risk - Representative Series
RHFB 2003, Series B
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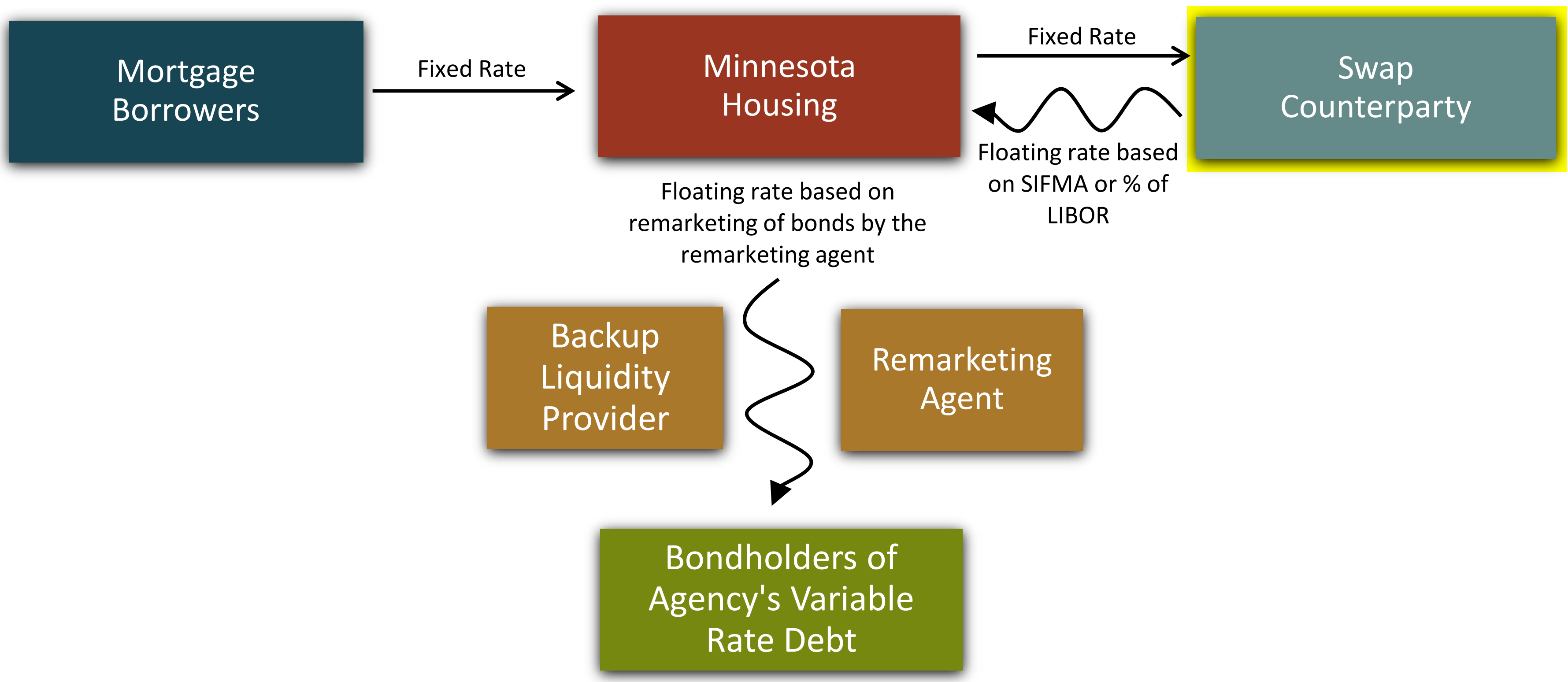
Swap Rate
VRD Rate

Floating-to-Fixed Interest Rate Swap Structure: Counterparty/Termination Risk



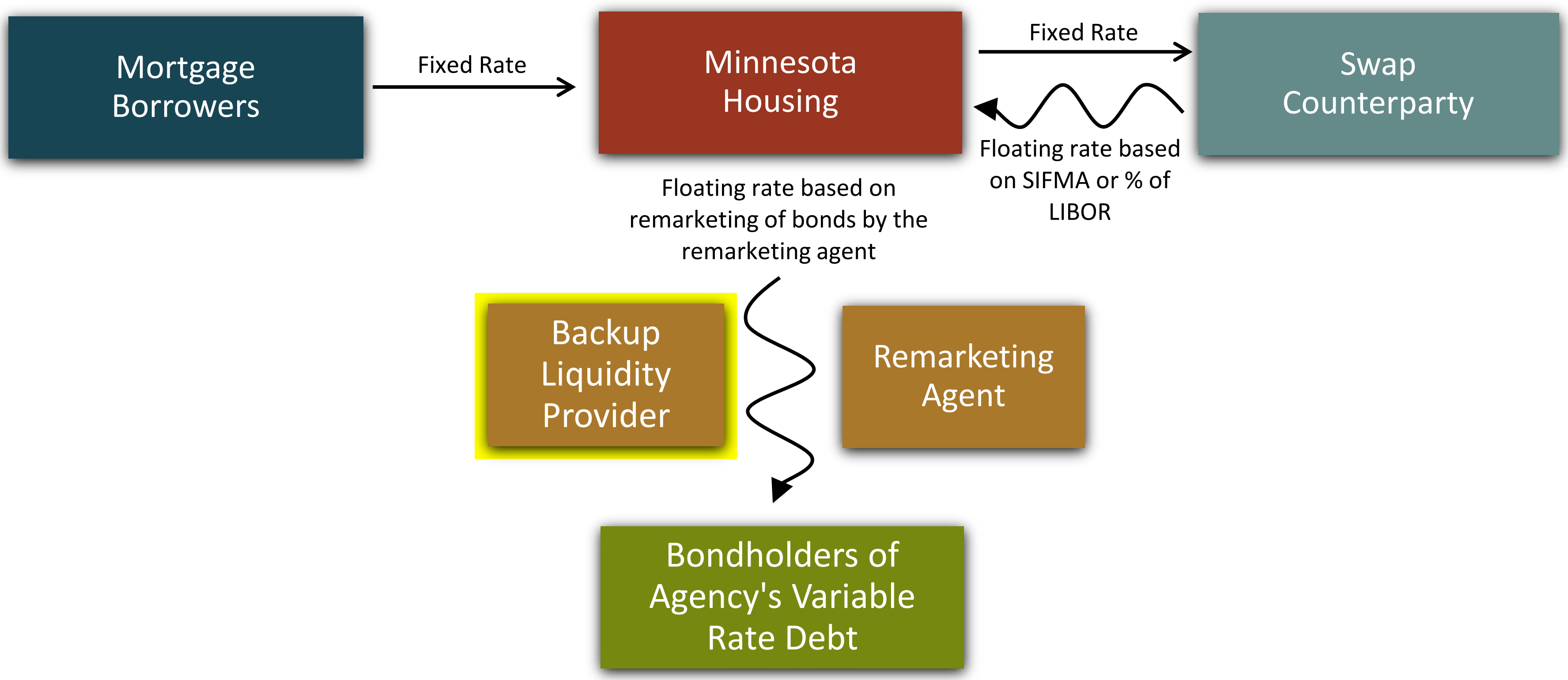
Counterparty/Termination Risk

July 1, 2016

Bond Series	Counterparty	Short-term Credit rating	Long-term Credit Rating of Provider at Swap Inception	Long-term Credit rating	Long-term Credit Outlook	Notional Amount Outstanding	Swap Maturity	Swap Average life at 100% PSA (years)	Swap Fixed Rate	Fair Value[1] as of 06/30/2016
RHFB 2003 B	The Bank of New York Mellon	P-1/A-1+	Aa1/AA+	Aa1/AA-	Stable/Stable	$ 8,825,000	01/01/2033	21	3.532%	$ (1,027,585)
RHFB 2003 J	The Bank of New York Mellon	P-1/A-1+	Aa1/AA+	Aa1/AA-	Stable/Stable	7,190,000	07/01/2033	14.3	4.183%	(1,160,873)
RHFB 2007 S	The Bank of New York Mellon	P-1/A-1+	Aaa/AA	Aa1/AA-	Stable/Stable	16,155,000	07/01/2038	27.4	4.340%	(601,351)
RHFB 2007 T	The Bank of New York Mellon	P-1/A-1+	Aaa/AA	Aa1/AA-	Stable/Stable	11,015,000	07/01/2026	11.8	4.538%	(415,797)
	Total The Bank of New York Mellon					**43,185,000**				**(3,205,606)**
RHFB 2008 C	Royal Bank of Canada	P-1/A-1+	Aaa/AA-	Aa3/AA-	Negative/Negative	27,900,000	07/01/2048	20.6	4.120%	(1,801,773)
RHFB 2009 C	Royal Bank of Canada	P-1/A-1+	Aaa/AA-	Aa3/AA-	Negative/Negative	40,000,000	07/01/2039	18.9	4.215%	(3,616,036)
RHFB 2009 F	Royal Bank of Canada	P-1/A-1+	Aaa/AA-	Aa3/AA-	Negative/Negative	2,480,000	07/01/2039	4.2	2.365%	(23,374)
RHFB 2015 D	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	18,225,000	01/01/2046	27.4	2.343%	(1,210,203)
RHFB 2015 G	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	35,000,000	01/01/2034	15.7	1.953%	(1,894,701)
	Total Royal Bank of Canada					**123,605,000**				**(8,546,087)**
	Total All Swaps					**$ 166,790,000**				**$ (11,751,693)**

[1]A positive fair value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination. Valuations are provided by BLXSwap.

Floating-to-Fixed Interest Rate Swap Structure: Liquidity Risk



Liquidity Risk
July 1, 2016

Bond Series	Current Liquidity Provider	Short-term Credit Rating	Long-term Credit Rating	Long-term Credit Outlook	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2003 B	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	$ 8,825,000	01/01/2033	07/16/2018	0.500%	0.300%
RHFB 2003 J	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	7,190,000	07/01/2033	07/16/2018	0.500%	0.300%
RHFB 2015 D	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	18,225,000	01/01/2046	08/11/2022	0.650%	0.650%
RHFB 2015 G	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	35,000,000	01/01/2034	01/02/2023	0.650%	0.650%
	Royal Bank of Canada subtotal				**69,240,000**				
RHFB 2007 S	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	16,155,000	07/01/2038	02/01/2018	0.450%	0.092%
RHFB 2007 T	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	11,015,000	07/01/2048	02/01/2018	0.450%	0.092%
	Wells Fargo subtotal				**27,170,000**				
RHFB 2008 C	FHLB - Des Moines[1]	P-1/A-1+	Aaa/AA+	Stable/Stable	27,900,000	07/01/2048	08/07/2018	0.450%	0.250%
RHFB 2009 C	FHLB - Des Moines[1]	P-1/A-1+	Aaa/AA+	Stable/Stable	40,000,000	07/01/2036	02/12/2019	0.450%	0.250%
RHFB 2009 F	FHLB - Des Moines[1]	P-1/A-1+	Aaa/AA+	Stable/Stable	2,480,000	07/01/2031	12/01/2016	0.250%	0.250%
	FHLB - Des Moines subtotal				**70,380,000**				
	Total All Liquidity Providers				**$ 166,790,000**				

[1]Federal Home Loan Bank of Des Moines

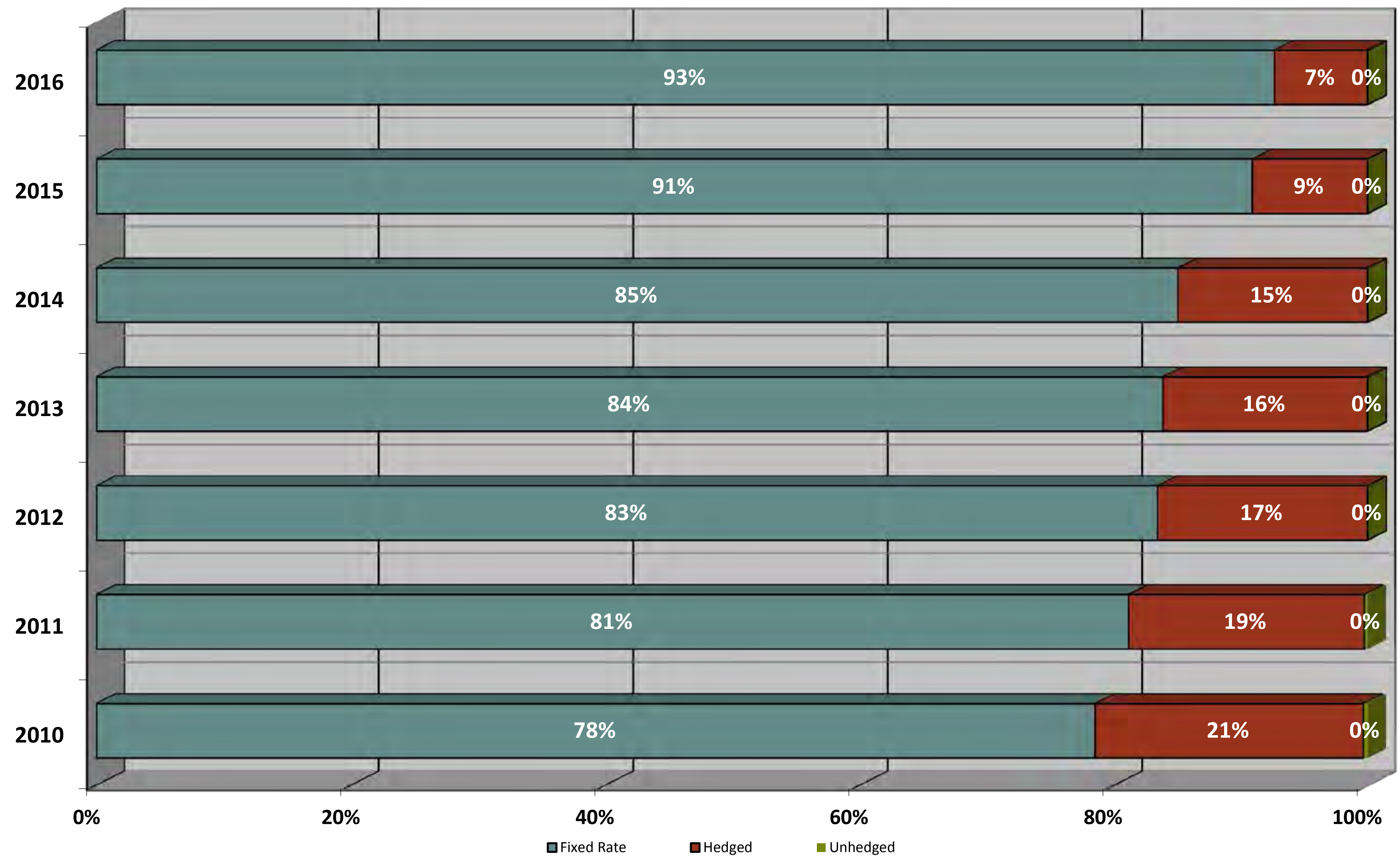
Liquidity Renewal Requirements

July 1, 2016

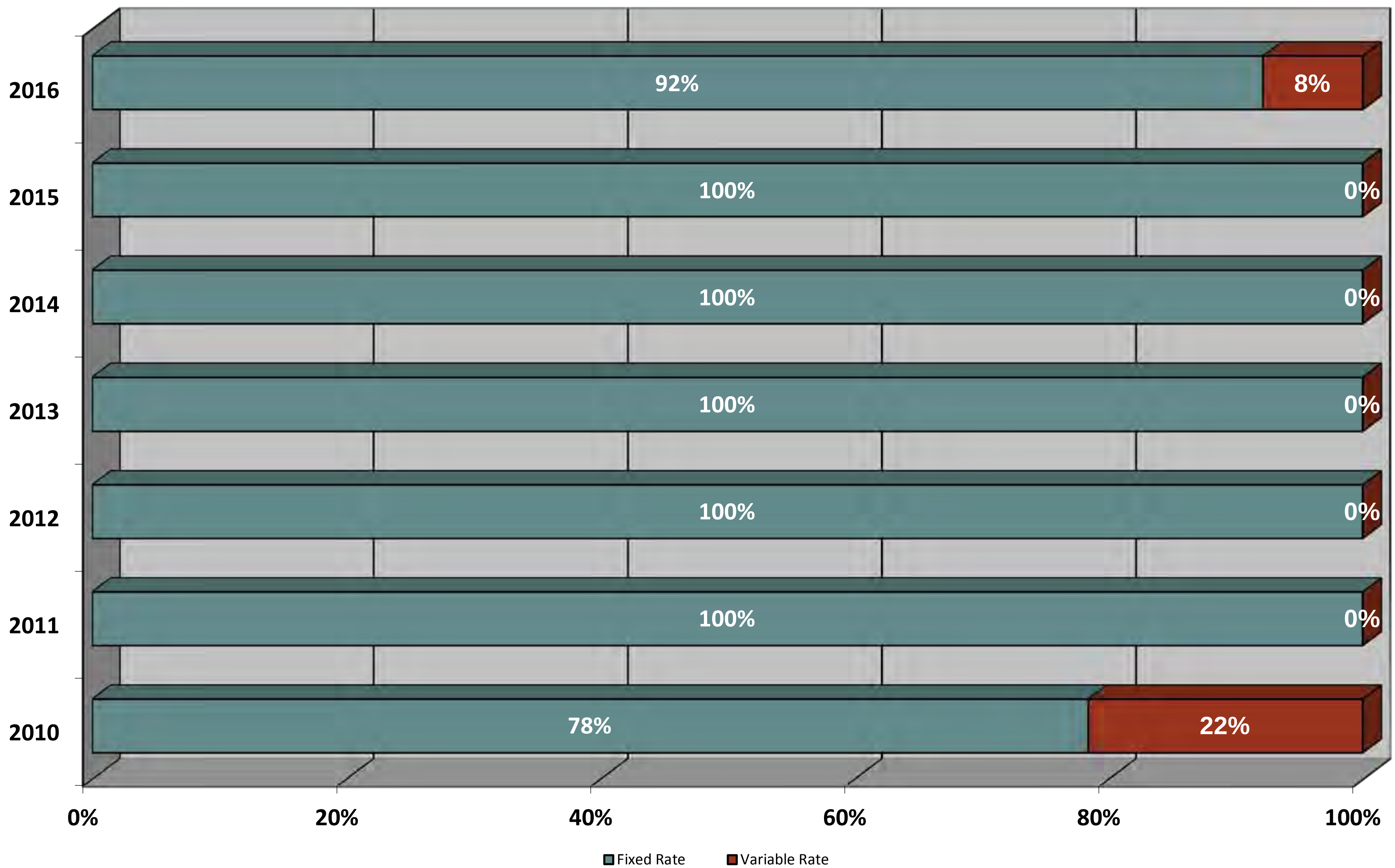
Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 07/01/2016	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2003 B	Royal Bank of Canada	01/01/2033	01/01/2022	07/16/2018	25,000,000	8,825,000	8,825,000	7,200,000	BNY[1]
2003 J	Royal Bank of Canada	07/01/2033	01/01/2023	07/16/2018	25,000,000	7,190,000	6,665,000	5,840,000	BNY[1]
2015 D	Royal Bank of Canada	01/01/2046	07/01/2022	08/11/2022	18,225,000	18,225,000	18,225,000	-	RBC[2]
2015 G	Royal Bank of Canada	01/01/2034	01/01/2023	01/02/2023	35,000,000	35,000,000	35,000,000	-	RBC[2]
	Royal Bank of Canada subtotal				103,225,000	69,240,000	68,715,000	13,040,000	
2007 S	Wells Fargo	07/01/2038	07/01/2017	02/01/2018	18,975,000	16,155,000	16,155,000	-	BNY[1]
2007 T	Wells Fargo	07/01/2026	07/01/2017	02/01/2018	37,160,000	11,015,000	7,500,000	-	BNY[1]
	Wells Fargo subtotal				56,135,000	27,170,000	23,655,000	-	
2008 C	FHLB - Des Moines[3]	07/01/2048	07/01/2018	08/07/2018	40,000,000	27,900,000	27,900,000	-	RBC[2]
2009 C	FHLB - Des Moines[3]	07/01/2036	01/01/2019	02/12/2019	40,000,000	40,000,000	40,000,000	-	RBC[2]
2009 F	FHLB - Des Moines[3]	01/01/2017	NA	12/01/2016	34,120,000	2,480,000	2,480,000	2,480,000	RBC[2]
	FHLB - Des Moines subtotal				114,120,000	70,380,000	70,380,000	2,480,000	
	Total All Liquidity Providers				273,480,000	166,790,000	162,750,000	15,520,000	

[1]The Bank of New York Mellon [2]Royal Bank of Canada [3]Federal Home Loan Bank of Des Moines

Total Long Term Debt: Fixed vs. Variable
Fiscal Year Ending June 30



Annual Long Term Debt Issuance: Fixed vs. Variable
Fiscal Year Ending June 30



Glossary of Terms

The following are explanations of certain terms used in this presentation:

Amortization Risk
Minnesota Housing is subject to amortization risk on its hedged VRDOs because the prepayments from mortgage loans securing the bonds may cause the outstanding principal amount of bonds to decline faster than the nominal amount of the swap. To manage amortization risk, termination options have been structured into its outstanding swaps to enable Minnesota Housing in certain circumstances to reduce the nominal amounts of the swaps to correspond to the outstanding principal amount of the bonds hedged by the swap. Additionally, Minnesota Housing may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk
Basis risk refers to a mismatch between the floating interest rate received from the swap counterparty and the interest actually paid on the related series of Minnesota Housing’s variable rate bonds. Under its outstanding swaps, Minnesota Housing pays a fixed interest rate and in return receives a floating variable rate based on LIBOR or the SIFMA Municipal Swap index, plus a specified spread if the swap relates to tax-exempt bonds. Minnesota Housing’s bonds hedged by its swaps bear interest at a variable rate that is reset weekly, based on market conditions. Minnesota Housing’s risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually paid on the bonds. This mismatch between the actual bond interest rate and the swap floating interest rate would cause additional interest expense to Minnesota Housing. A mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the credit quality of Minnesota Housing or the liquidity facility provider, or a reduction of federal income tax rates for corporations and individuals. Basis risk varies over time due to inter-market conditions. Tax risk is a form of basis risk.

Counterparty Risk
Counterparty risk is the risk that the swap counterparty will not perform pursuant to the swap contract’s terms, either in making regular payments or termination payments. Under a fixed payor swap, for example, if the counterparty defaults, Minnesota Housing could be exposed to unhedged variable rate bonds. The creditworthiness of the counterparty is indicated by its senior unsecured long-term credit rating. The outstanding swap agreements contain varying collateral requirements based on the respective parties’ credit ratings and the fair value of the swaps to mitigate potential credit risk exposure.

LIBOR
London Interbank Offered Rate.

Glossary of Terms (continued)

Liquidity Risk
Issuers of VRDOs face liquidity risk due to the ability of holders of the bonds to tender them for purchase upon short notice. The bonds are to be remarketed by a remarketing agent appointed by the issuer, but if the remarketing were to fail, the liquidity facility provider providing liquidity support to cover tenders would be required to purchase the bonds. In such event, the bonds, known as “bank bonds,” would bear interest at a higher “bank rate” and be subject to principal amortization over a much shorter period than their stated terms. The bank rate typically floats at a few percentage points higher than the prime rate. Because of turmoil in the financial markets, substantially fewer financial institutions are providing liquidity facilities and at a substantially higher cost. Consequently, at the expiration of a liquidity facility, Minnesota Housing may have difficulty obtaining a replacement liquidity facility or may have to pay substantially higher fees.

SIFMA
Securities Industry and Financial Markets Association.

Tax Risk
All issuers who issue tax-exempt variable rate debt inherently accept risk arising from changes in marginal federal income tax rates. For variable rate tax-exempt bonds hedged with LIBOR-based swaps, basis risk may be realized if changes in the federal tax code alter the historical relationship between taxable and tax-exempt short-term rates on which the swap was structured.

Termination Risk
Termination risk is the risk that the swap may be terminated as a result of any of events specified in the swap, which may include a ratings downgrade for Minnesota Housing or its counterparties, covenant violation by either party, bankruptcy of either party, swap payment default by either party, events of default under the bond resolution and certain specified termination events.

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are
the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VDROs
Variable Rate Demand Obligations (“VDROs”) are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarketed by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.

Board Agenda Item: 9.D
Date: 8/25/2016

Item: Post-Sale Report, Homeownership Finance Bonds

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 $70,779,199 of Homeownership Finance Bonds, 2016 Series CD the second week of July with a closing the last week of July. 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

Agenda Item: 9.D
Post-Sale Report
Via Email Delivery

MEMORANDUM

Date: **July 28, 2016**

To: **Minnesota Housing Finance Agency**

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

Re: **Post-Sale Report**
$70,779,199 Homeownership Finance Bonds (HFB)
2016 Series C (Non-AMT) and D (Taxable)

BOND CRITERIA

The 2016 Series C & D Housing Finance Bonds were issued to finance single-family new production. The key criteria for issuing the debt were:

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

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

3. ***Enhance Minnesota Housing's long-term financial sustainability*** through a mix of bond financing and sales of MBS, so as to provide more balanced and financially sustainable results for Minnesota Housing**.**

4. ***Provide at least a comparable expected level of return to selling MBS*****,** at reasonably anticipated prepayment speeds.

5. ***Use new bond volume cap as efficiently and sparingly as possible,*** so that the Agency can continue both its single-family and multi-family programs, even though volume cap has become an increasingly scarce resource.

KEY RESULTS FOR MINNESOTA HOUSING

Key Measurable Objectives. Minnesota Housing's objectives for the issue are to:

1. Achieve full spread utilizing the least amount of zero participations (or generating zero participations to finance future production).

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

3. Minimize the amount of new volume cap needed in financing such production.

Accomplishments. The results were exceptionally successful in meeting Minnesota Housing's objectives:

- ***No New Volume Cap.*** The issue enabled Minnesota Housing to finance all $70.8 million of new mortgages on-balance sheet *without needing any new volume cap.* To achieve this extraordinary result, Minnesota Housing used taxable bonds (on Series D) and refunded particular past series. While it is not likely to be possible to replicate this in the future, many of the same approaches used in this transaction can help minimize and stretch the use of volume cap on subsequent transactions.

- ***Full Spread.*** Minnesota Housing obtained approximately full spread of 1.09% compared to the maximum IRS limit of 1.125% for tax-exempt housing series, such as Series C of this transaction.

- ***Attractive Bond Yield.*** Bond yield was 2.33% on the tax-exempt Series C, and 2.73% on the taxable Series D. These rates were approximately 40 basis points lower than if Minnesota Housing had used a traditionally structured fixed-rate issue.

- ***Return to Minnesota Housing.*** The financial benefits to Minnesota Housing depend on how long the mortgages remain outstanding.

    - As long as the 2016 CD mortgages prepay no more quickly than a 119% prepayment speed, the net present value to Minnesota Housing is greater from having issued bonds than having directly sold the MBS. [1]

    - The net present value to Minnesota Housing (after all hedging costs and net service release premiums) is projected to be approximately $1.85 million at the 119% break-even prepayment speed.

- ***Zero Participations.*** The issue used a modest amount, approximately $2.4 million, of zero participations to help toward getting close to full spread. This was about 5% of the zero participations the Agency had already built up. Going forward, Minnesota Housing has approximately $52 million of zeros for future transactions.

  If the entire transaction had been tax-exempt, Minnesota Housing would have increased its zero participations by about $.9 million. By designing the transaction as half tax-exempt and half-taxable, Minnesota Housing was able to use no new volume cap, with an approximate difference of about $3.3 million in the amount of zero participations going forward. This was an excellent trade-off, given the total amount of zeroes available and the competing demand for private activity volume cap.

- ***Hedging.*** The loan production pipeline remained fully hedged until bonds were sold. By taking hedge losses into account in bond yield, Minnesota Housing can earn the maximum allowable spread and recover these losses over time.

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[1] This break-even prepayment speed differs by bond issue, partly because the cost of hedge losses is different on each set of loans. The break-even speed measures how fast mortgages can prepay while still assuring Minnesota Housing at least the same present value as an MBS sale. The 119% is somewhat lower than on other recent Agency issues (which have generally been at least 130%). Taking the bond program as a whole, the average break-even speed is well above the actual rate at which Agency mortgages have been prepaying.

- ***Continuing to Build Investor Demand.*** With $320 million of going-away orders from more than fifteen investors across the two series, RBC continued to expand the market and liquidity for Minnesota Housing pass-through issues.

Implications. Key implications include:

- ***Viability of Pass-Through Approach.*** Minnesota Housing's pass-through issues since June 2014 demonstrate the renewed viability of this approach for financing production on-balance sheet. The Agency has been, by far, the national leader in such financings.

- ***Size.*** Given investor demand, the Agency and RBC have been quite successful in building up interest for issues in the $50 million to $90 million range, such as this combined issue.

- ***Balance Sheet Management.*** Minnesota Housing remains the national leader in financing *more than three-quarters* of its single-family pipeline on balance sheet, while achieving present value returns as great or greater than selling the MBS.

- ***Volume Cap.*** Minnesota Housing's single-family production together with demand for multi-family issuance in the State is now so great, that *private activity volume cap is a major constraint* on tax-exempt issuance for the first time in many years. To help address this:

    - The Agency is maximizing the use of taxable bonds, and

    - Has established a tax-exempt drawdown bond facility with RBC to recycle over $300 million of past private activity volume cap as old bonds are paid off (whether on a monthly or semi-annual basis).

  This bond issue took advantage of and combined both approaches.

TIMING AND STRUCTURE

Timing. The issue was priced on Thursday, July 14th, for closing on Wednesday, July 27th.

Sizing. The sizing was based on specific hedged MBS in Minnesota Housing's pipeline.

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

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

- Include both Fannie Mae and Ginnie Mae MBS in the issue, with no percentage limit on either. This provides Minnesota Housing the ability to adjust to the actual mix of loans in its pipeline. Ginnie Mae MBS were approximately 70% of this issue, well above that on 2015 production. This is primarily due to up-front FHA insurance premiums being cut in half last year.

- Schedule the closing so as to allow losses on hedges that terminated on July 14th (immediately following the pricing) to be included in the bond yield. (Only hedges which terminate not more than 14 days before closing can be included in bond yield.)

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

Hedging. Minnesota Housing has remained fully hedged on its pipeline until the bonds are sold or MBS are delivered to mortgage buyers. This protects the Agency from risk if interest rates rise between the time the loans are committed and they are packaged into MBS (for either bond financing or TBA sale). In this case long-term interest rates had dropped since loans were reserved. Minnesota Housing was able to sell the bonds at a lower yield, offsetting higher costs to terminate the hedges that had protected the Agency in case rates had risen. The result, and the purpose of this strategy, is to help make the Agency largely indifferent to changes in rates.

BOND SALE RESULTS. Key highlights are:

1. ***Investor Interest for Series 2016C and D.*** There was strong institutional interest, especially on the tax-exempt series. Altogether $320 million of orders were received.

2. ***Timing.*** After the Brexit vote in late June, investors globally turned to Treasuries, with yields dropping to the lowest in the history of the United States. Municipal yields also dropped, though spreads to MMD increased somewhat. In the week of the sale, investors began to turn to the stock market and both Treasury and municipal yields backed up slightly, although the levels are still far lower than the beginning of the year. As part of this market correction, on the date of the pricing itself, the 10 year Treasury yield on increased by 5 basis points and the 10 year MMD increased by 3 basis points (with even bigger increases on 30 year Treasuries and MMD).

   During all these market changes in Treasury and municipal yields, yields on GNMAs and Fannie Maes have remained remarkably stable and little changed.

3. ***Successful Sale.*** The sale was very well-priced. The Series C tax-exempt bonds were initially priced at 2.35%. They were 5.7 times oversubscribed and repriced down to 2.33%. The taxable Series D bonds were 3.3 times oversubscribed and also repriced down, from 2.75% to 2.73%. This very positive order flow and repricing to lower rates was achieved even though longer-term Treasury and municipal yields increased on the date of pricing.

4. ***Comparison to GNMA Yields.*** Investors compare yields on pass-through issues to current-coupon GNMAs, as well as Treasuries and municipals. Compared to GNMAs, Minnesota bonds provide much less liquidity in the global markets but do offer tax-exemption. On this transaction, Minnesota Housing was able to achieve a tax-exempt bond yield approximately 74 basis points lower than GNMA yields – the best performance of any of Minnesota Housing's pass-through sales. Such execution helped make this an extremely successful bond sale.

	2015 A	**2015 B**	**2015 C**	**2015 D**	**2016 A**	**2016 B**	**2016 C / D**
	Jan. 2015	Mar. 2015	May 2015	Oct. 2015	Jan. 2016	Mar. 2016	July 2016
Minnesota Housing bond yield Tax-Exempt **Taxable**	**2.80%**	**3.00%**	**3.05%**	**2.90%**	**2.95%**	**2.70%**	**2.33%** **2.73%**
Yield on GNMA 4.0 current coupon, at 150% prepay. speed	3.05%	3.08%	3.04%	3.12%	**3.15%**	**3.12%**	**3.07%**
Minnesota Housing compared to GNMA yield	**- 25 b.p.**	**- 8 b.p.**	**+ 1 b.p.**	**- 22 b.p.**	**- 20 b.p.**	**- 42 b.p.**	**- 74 b.p. tax-exempt** **- 34 b.p. taxable**

(For purposes of comparison, all MBS yields are computed at a standardized 150% prepayment speed; actual break-even speeds on individual transactions have ranged between somewhat lower and somewhat higher)

5. ***Comparable Single-Family Pass-Through Bond Transactions:*** Other than Minnesota's own prior pass-through issues, there have been few single-family new money tax-exempt pass-through bond issues this year.

UNDERWRITING

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

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

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ISSUE DETAILS

Key Dates:	2016 C / D Bond Pricing	HFB Indenture
	Institutional Order Period:	Thursday, July 14, 2016
	Closing Date:	Wednesday, July 27, 2016

Economic Calendar. The calendar of data releases was relatively light for the week of pricing. On Tuesday, Wholesale Inventories for May dropped to 0.1%, from the revised 0.7% for April. On Thursday, Initial Unemployment Claims came in at 254,000, similar to recent figures. Also on Thursday, Producer Price Index for June was reported at 0.5%, slightly higher than the market consensus of 0.3%.

Treasuries**.** The 10-year Treasury bond yield has fluctuated significantly in 2016 based on overseas conditions, perceived strength of the domestic economy and how both of those are likely to impact Federal Reserve decisions as to whether and when to take the next step or steps in raising the short-term discount rate.

The 10-year Treasury yield started the year at 2.24% and was 1.87% when Minnesota priced its last single-family issue, for RHFB, on May 25th. Since the U. K.'s unexpected popular vote for "Brexit" on June 23, the fixed income markets have been roiled by fear of the economic impacts on both the U.K. and Europe. Investor flight to the safety of U.S. Treasury securities drove U.S. yields to all-time lows in the week before the pricing. The 10-year Treasury closed the prior week at 1.37%. As investors started moving money into the stock market, Treasury yields backed up during the week of pricing, closing at 1.53% on Thursday. Thus although rate levels are extraordinarily low, Series C / D was priced into a somewhat softening bond market.

Municipals**.** While municipal bond yields closely track the movements in Treasury yields, the relationship has been distorted by high profile municipal credit events (Puerto Rico's problems, most recently) and international investment flows. Since last fall, positive funds flows into the municipal market have helped maintain strong demand and declining rates. In the immediate wake of "Brexit," fear of volatility has heightened concern that spreads to the MMD Index will widen and that retail purchasers will shy from accepting lower yields.

- New municipal issuance jumped to an eight-year high in June but has been generally matched by demand. MMD/treasury ratios have deteriorated, reflecting the strong international flight to the safety of U.S. treasuries.
- Positive mutual fund flows have helped keep municipal yields attractive, though spreads relative to Treasuries continue to be compressed due to the absolute low level of rates and the flight to the safety of Treasuries.
- The ratios of the 10- and 30-year MMD indices to their respective Treasury bond yields have increased since the Brexit vote, given the global flight to Treasuries.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio	30-Year Treasury	30-Year MMD	MMD/ Treasury Ratio
2015 HFB A	1/12/15	1.92%	1.84%	95.8%	2.49%	2.63%	105.6%
2015 HFB B	3/10/15	2.14%	2.18%	102.0%	2.73%	3.0%	110.0%
2015 HFB C	5/13/15	2.28%	2.24%	98.2%	3.02%	3.21%	106.3%
2015 RHFB ABCD	7/30/15	2.28%	2.23%	97.8%	2.96%	3.14%	106.1%
2015 HFB D	10/08/15	2.12%	2.04%	96.2%	2.96%	3.09%	104.4%
2015 RHFB EFG	11/24/15	2.24%	2.04%	91.1%	3.00%	2.98%	99.3%
2016 A	1/12/16	2.12%	1.78%	84.0%	2.89%	2.73%	94.5%
2016 B	3/10/16	1.93%	1.88%	97.4%	2.70%	2.86%	105.9%
2016 RHFB ABC	5/25/16	1.87%	1.66%	88.8%	2.67%	2.45%	91.8%
2016 C / D	**7/14/16**	1.53%	1.41 %	92.2%	2.25%	2.05%	91.1%
Change from 2016 *RHBD ABC*		**- 34 bp**	**- 25 bp**	**+ 3.4 %**	**- 42 bp**	**- 40 bp**	**- 0.7%**

Municipal Calendar. The 30 day visible supply was approximately $12 million at the time of issue. This has remained about the same for the last 3 months (except for the quiet weeks right before and after the July 4th holiday). The Minnesota competitive sale calendar for the week contained many quite small local issues early in the week, with one $10 million issue on the Thursday of pricing. There were a total of $23 million of Minnesota negotiated issues, including an $11.8 million St. Francis school G.O. on the date of Minnesota Housing's pricing.

No other similar single-family pass-through issues were being priced during the week of the sale, or in the two weeks prior. Traditionally structured issues during the week of the sale included SONYMA, Missouri and Vermont. There was also a Utah transaction which is structured more like a TBA sale.

Indeed, the only pass-through issues in the four months since Minnesota's Series 2016 B on March 10th were shorter maturity taxable refundings by Florida for $50.5 million in March; Escambia County, Florida for $16.9 million in April; and Virginia for $150.1 million (not backed by MBS) in May.

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

As can be seen, MBS yields have moved very little despite extraordinary movements in Treasuries. For example, since the last pass-through in March, the 10 year Treasury yield has dropped by 40 basis points; the GNMA yield has only decreased by 11 basis points.

Type	Delivery	Coupon	Measure	Jan. 12, 2015	March 10, 2015	May 13, 2015	October 8, 2015	Jan. 12, 2016	Mar. 10, 2016	July 14, 2016
GNMA	Current	4.0	Price	107.27	106.97	107.20	106.59	106.48	106.48	107.09
			Yield*	**3.05%**	**3.08%**	**3.05%**	**3.13%**	**3.15%**	**3.18%**	**3.07%**
FNMA	Current	4.5	Price	108.38	108.59	108.53	108.47	108.20	108.48	108.94
			Yield*	**3.38%**	**3.35%**	**3.36%**	**3.37%**	**3.40%**	**3.37%**	**3.31%**
10-Year Treasury	n/a	n/a	Yield	1.92%	2.14%	2.27%	2.12%	2.12%	1.93%	1.53%
GNMA to 10-Year Treasury	n/a	n/a	Yield*	**158.61%**	**144.13%**	**134.51%**	**147.82%**	**148.58%**	**163.13%**	**200.51%**
GNMA to 10-Year MMD	n/a	n/a	Yield*	**165.50%**	**141.48%**	**136.31%**	**153.62%**	**176.97%**	**167.47%**	**217.58%**

*all yields are computed based on an assumed 150% PSA