Address Gaps in your Community: Leverage Multiple Home Improvement Programs

USDA RD
DEED Small Cities
Greater MN Housing Fund
Minnesota Housing

April 16, 2015
Agenda

• Define the problem: Home improvement gaps and barriers in your community

• Program Overview
  – Competitive Programs – Requests for Proposal
  – Lender-driven Programs

• Four “Community Scenarios”

• Your questions
Partner Organizations

- Greater Minnesota Housing Fund
- Minnesota DEED
- USDA
- Minnesota Housing Finance Agency
Desired End State

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

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

Real and perceived program gaps and barriers for borrowers
Home Improvement
Gaps and Barriers

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

**Program**
- Geographic limitations
- Lead reduction requirements
Approaches to Offering Home Improvement Programs

- “You’re on your own”
- Partnership among providers
- All in-house
- Other models?
Who is Being Served and Where?

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

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

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

Minnesota Housing Impact Fund
- Statewide
- **Annual RFP**
  - Due in June
- 0% interest
- 30-year deferred loan

Greater Minnesota Housing Fund
- Outside of the 7-county metro
- **Annual RFP**
  - Due in June
- 0% interest
- 30-year deferred loan
Competitive RFP: DEED Small Cities Development Program (SCDP)

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

Financial Incentive
• 15% of SCDP award as administrator fee

Drawbacks
• Larger communities ineligible
• Few others!
Competitive RFP: Impact Fund

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

Financial Incentive
• $500 fee per unit for administrator

Drawbacks
• Scarce, competitive, not guaranteed
• “Special niche” required
Competitive RFP: GMHF

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

**Financial incentive:**
$300 fee per unit for administrator (if no other administrator fee)

**Drawbacks**
- Scarce, competitive, not guaranteed
- Loan must be repaid
Are You Leveraging Lender-Driven Programs?

Competitive RFP Programs

- Fix Up
- Community Fix Up

USDA RD Section 504

- Loan
- Grant

Minnesota Housing
## Lender-Driven: Minnesota Housing Fix Up Loan Program

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

*This project was made possible by a grant from the U.S. Department of Energy and the Minnesota Department of Commerce through the American Recovery and Reinvestment Act of 2009 (ARRA)*
Lender-Driven: Minnesota Housing Fix Up Loan Program

Financial Incentive for Lender

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

Drawbacks

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

- Address your specific community needs
- Partner Information

Define the Initiative

- Present to board for approval

Minnesota Housing Review

- Lender markets, originates, underwrites and closes loans
- Funds available for two years

Fulfilling Initiative Goals

Local dollars and/or Impact Fund dollars to write-down the interest rate
### Regional Offices: USDA RD Section 504

<table>
<thead>
<tr>
<th>Income Limit</th>
<th>Loan</th>
<th>Grant</th>
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</thead>
<tbody>
<tr>
<td>≤ 50% of AMI</td>
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<table>
<thead>
<tr>
<th>Maximum Amount</th>
<th>Loan</th>
<th>Grant</th>
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<tbody>
<tr>
<td>$20,000</td>
<td></td>
<td>$7,500</td>
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</table>

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Loan</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured if &gt; $7,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Max Term</th>
<th>Loan</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rate</th>
<th>Loan</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>Loan</th>
<th>Grant</th>
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<tbody>
<tr>
<td>“In good standing”</td>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Geographic Area</th>
<th>Loan</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural resident or city pop. ≤ 20,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Regional Offices: USDA RD Section 504

Section 504 Characteristics
- $7,500 grant for ages 62+ or those who cannot afford to pay 1% loan
- Referral made to local USDA Rural Development (12 offices throughout Minnesota)
- Office assists homeowner to complete application package

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

Drawbacks
- Loans over $7,500 requires lien on property
- Cities with population > 20,000 ineligible
Why Combine Programs?

1. Competitive RFPs require leverage funds
2. Reach more households
3. Flexibility
Let’s look at some examples... What does this mean in the real world?
Scenario #1

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

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

Possible programs:
• USDA RD
• DEED SCDP
• Greater Minnesota Housing Fund
Scenario #1

Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>USDA</td>
<td>Loan, 1%, 20 years</td>
<td>$12,000</td>
</tr>
<tr>
<td></td>
<td>Grant</td>
<td>$7,500</td>
</tr>
<tr>
<td>DEED</td>
<td>0% deferred forgivable loan</td>
<td>$15,500</td>
</tr>
<tr>
<td>GMHF</td>
<td>0% deferred loan</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Result

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

Example

NW Minnesota Multi-County HRA (Mentor, MN)
Scenario #2

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

Considerations:
• Population under 50,000
• Underwater
• Decent credit
• Project cost = $20,000

Possible programs:
• Unsecured Fix Up loan (with or without Impact Fund)
• DEED SCDP deferred forgivable loan
# Scenario #2

## Sources

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>DEED</strong></td>
<td>0% deferred forgivable loan</td>
<td>$17,000</td>
</tr>
<tr>
<td><strong>Fix Up</strong></td>
<td>Loan</td>
<td>$3,000</td>
</tr>
<tr>
<td></td>
<td>Rate</td>
<td>6.49%</td>
</tr>
<tr>
<td></td>
<td>Loan To Value (up to 110% of after-improved value for Fix-Up)</td>
<td>105%</td>
</tr>
<tr>
<td></td>
<td>DTI (generally can't exceed 48% for Fix Up)</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Total loan</strong></td>
<td></td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>Total grant</strong></td>
<td></td>
<td>$0</td>
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</tbody>
</table>

## Result
- Amortizing monthly loan payment = $34
- 10-year term

## Example
SEMCAC (Rushford, MN)
Scenario #3

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

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

Possible programs:
• Secured Fix Up loan, energy incentive
• Impact Fund deferred loan
## Scenario #3

### Sources

<table>
<thead>
<tr>
<th>Fix Up</th>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>$12,000</td>
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</tr>
<tr>
<td>Energy Incentive rate</td>
<td>4.99%</td>
<td></td>
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<table>
<thead>
<tr>
<th>Impact Fund</th>
<th>Source</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>0% deferred loan</td>
<td>$3,000</td>
<td></td>
</tr>
</tbody>
</table>

| Loan to Value (up to 110% of after-improved value for Fix-Up) | 101% |
| DTI (48% max for Fix Up)                                      | 46%  |

| Total loan            | $15,000                                     |          |
| Total grant           | $0                                           |          |

### Result

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

### Example

Headwaters Regional Development Commission (Bemidji, MN)
Scenario #4

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

Considerations:
• Population under 20,000
• Low income
• Project cost = $15,000

Possible programs:
• Community Fix Up secured loan, write-down the interest rate to 1%
• USDA RD, 1%
Scenario #4

Sources

<table>
<thead>
<tr>
<th>Community Fix Up</th>
<th>Loan</th>
<th>$7,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>1.00%</td>
<td></td>
</tr>
<tr>
<td>Write-down (grant funds)</td>
<td>$1,514</td>
<td></td>
</tr>
<tr>
<td>USDA</td>
<td>Loan, 1%, 20 years</td>
<td>$7,500</td>
</tr>
<tr>
<td>Grant</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                       | Loan to Value (up to 110% of after-improved value for Fix-Up) | 98% |
|                       | DTI (generally can't exceed 48% for Fix Up)             | 32% |
| Total loan            | $15,000                                             |     |
| Total grant           | $1,514                                              |     |

Result

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

Examples

- Hutchinson HRA
- Greater Metropolitan Housing Corporation (Minneapolis/west Metro)
St. Paul Credit Initiative

- Address underwater households with lower credit score
- Reduced unsecured loan credit score requirement to 620
- City provided loan loss reserve funds
Your questions?

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More information

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

http://www.hocmn.org/resources-for-homeowners
Thank you!