# 2013 Affordable Housing Plan

Minnesota Housing Finance Agency

**This Page is Left Intentionally Blank**

# 2013 Affordable Housing Plan

## Executive Summary

The 2013 Affordable Housing Plan (AHP) is Minnesota Housing's annual business plan for carrying out the Agency's core work for the upcoming year and implementing the 2013-15 Strategic Plan. The AHP outlines key programmatic and policy initiatives for the year, specifies program-by-program funding, and establishes production targets. In total, the plan allocates more than $874 million of federal, state, and agency housing resources, which will assist approximately 67,900 households or housing units.

The housing and financial markets and economy have seen dramatic changes since 2008. Rather than waiting for conditions to become "normal" again, the Agency is embracing a "new normal" and has updated many of the Agency's products and tools to meet evolving housing needs and market conditions. Overall, the work in the plan reflects three driving approaches that are critical for operating in the current environment:

- **Being nimble**
- **Being proactive**
- **Being responsive**

To help accomplish this, Minnesota Housing has decided to switch from a two-year to a one-year AHP.

Being strategic and proactive is more critical than ever. The need for affordable housing is growing, while the resources to meet that need are shrinking. The percentage of Minnesotans who are cost burdened by their housing payments (spending more than 30% of their income on housing) increased from 22 percent in 2000 to 33 percent in 2010.[1] In 2010, more than half of lower-income households (58 percent) were cost-burdened.[2] At the same time, resources are shrinking to meet the growing need. Not only is the market for selling housing bonds very challenging, but the federal government and state have cut funding for housing. Between 2011 and 2012, the federal government cut HOME funding to Minnesota from $9.2 million in 2011 to $6.2 million in 2012, and the state reduced its biennial appropriation to the Agency from $82.0 million for 2010/11 to $76.1 million for 2012/13. Minnesota Housing needs an effective plan for moving forward in this environment.

Key changes and initiatives for 2013 will include:

- **Implementing the Agency's new Strategic Plan.** To move forward proactively and strategically in the current environment, Minnesota Housing has established five priorities for 2013 through 2015:
    - Promote and support successful homeownership,
    - Preserve federally subsidized rental housing,
    - Address specific and critical needs in rental housing markets,
    - Prevent and end homelessness, and
    - Prevent foreclosures and support community recovery.

The other key initiatives listed below are directly aligned with these priorities.

- **Adding financing tools to overcome challenges presented by the housing bond market.** The changes include:

    - Selling tax-exempt bonds with a different payment structure to attract investors who purchase mortgage-backed securities, rather than relying solely on investors who purchase municipal tax-exempt bonds,
    - Selling the Agency's mortgage-backed securities on the secondary market to access attractively-priced private capital, and
    - Potentially issuing mortgage credit certificates (which provide income tax credits for eligible homeowners for a portion of the mortgage interest they pay), which is an alternative use of the Agency's bonding authority.

- **Implementing a revised and enhanced set of homeownership and home improvement loan products.** With these changes, the Agency will serve a full range of low- and moderate-income homebuyers and homeowners across the state in the new housing market. The primary focus will continue to be on "start up" products for first-time homebuyers and "fix up" products for home improvement and rehabilitation, but the Agency will also have, for the first time, "step up" products for existing homeowners to refinance or move into a new home.

- **Using tax-exempt bonds for multifamily lending to enable developments to become eligible for 4% housing tax credits.** To be eligible for the 4% credits, at least 50% of a development's costs must be financed with tax-exempt bonds. This initiative will make it easier for Minnesota to more fully utilize an existing financing source.

- **Enhancing and refining the state's strategies and tools for preserving and stabilizing affordable rental housing, particularly federally-subsidized units.** This includes: (1) collaboration with the Agency's funding partners through the Minnesota Preservation Plus Initiative (MPPI), and (2) an internal initiative (PINES – Preservation: Indentifying Needs and Establishing Strategies) to enhance existing data, tools, and processes and be proactive and preventative in preserving and stabilizing the Agency's rental portfolio.

- **Working with partners and stakeholders around the state to understand and meet their specific affordable housing and community development needs.** Minnesota is not monolithic, and needs vary. Minnesota Housing realizes that a strict one-size-fits-all approach does not work and that its programs need to flexible enough to address not only statewide needs but also community specific needs.

- **Refocusing the state's efforts to prevent and end homelessness.** With the anticipated achievement of 4,000 additional housing opportunities - the primary goal under the state's Business Plan to End Long-Term Homelessness - the state needs to develop a new plan for the next phase of its efforts to prevent and end homelessness.

- **Continuing current foreclosure prevention efforts but also focusing resources on recovery as communities move beyond the crisis.** Community recovery from the foreclosure crisis is more than a housing recovery. For a community that was destabilized to once again become a desirable place to live, it needs job opportunities, good schools, safe neighborhoods, access to public transportation, and places to shop and participate in community activities. The Agency's housing investments will be integrated with these other recovery efforts.

- **Developing a better understanding of how the Agency can effectively support its delivery partners across the state.** Minnesota Housing relies on partners to deliver the products and services that it finances. The Agency needs effective partners to achieve its mission.

- **Securing state funding for 2014-15 during the 2013 legislative session and advocating nationally for effective use of federal resources for affordable housing.** Minnesota Housing receives a large share of its resources from federal and state appropriations and federal tax law (exemptions and credits). Effectively securing and using these resources is critical to the Agency successfully fulfilling its mission.

The Agency developed the 2013-15 Strategic Plan and 2013 AHP through a thorough process that included an assessment of the housing environment, a statewide survey of housing partners and stakeholders, seven regional housing dialogues in six locations around the state, discussions with staff and the Agency's Board, and a public comment period for initial drafts.

The 2013 AHP contains the following sections:

- Program Budget Overview
- Key Initiatives
- Funding by Strategic Priority
- Household and Unit Projections
- Funding by Source
- Authorization of Adjustments
- Appendix A: Program Funding by Source
- Appendix B: "Gap/Affordability" Financing by Program – Appropriated and Pool 3 Funds – 2012 and 2013
- Appendix C: Program Narratives

# Program Budget Overview

As shown in Table 1, the Agency's 2013 program budget is $874 million, which is a 33 percent increase from the previous year. In a period of a challenging bond market and reduced appropriations, the Agency is able to increase its budget by identifying additional funding options and aggressively pursuing those that will further the Agency's mission of financing affordable housing for low- and moderate-income Minnesotans.

**Table 1: Funding by Program Category**

| Program Category | Original 2012 AHP | Proposed 2013 AHP |
|---|---|---|
| Homebuyer and Home Refinance | $271,204,957 | $419,306,959 |
| Home Improvement | $26,215,000 | $26,215,000 |
| Rental Production - New Construction and Rehabilitation | $113,621,769 | $146,947,057 |
| Rental Assistance Contract Administration | $181,625,000 | $179,840,000 |
| Resources to Prevent and End Homelessness (Non-Capital) | $22,005,304 | $25,074,443 |
| Rental Portfolio Management | $4,375,015 | $6,460,090 |
| Multiple Use Resources | $36,458,538 | $55,005,198 |
| Other | $3,101,697 | $15,592,951 |
| Total | $658,607,280 | $874,441,698 |

The primary changes in funding are:

- The Agency will increase its Homebuyer and Home Refinance activity by roughly $100 million by adding financing tools (primarily selling mortgage-backed securities on the secondary market) and by expanding the Agency's mortgage products from only serving first-time homebuyers to also serving certain existing homeowners. This will be supplemented with an additional $50 million of mortgage enhancements through mortgage credit certificates.

- The Agency will expand its amortizing lending for rental housing under the Low and Moderate Income Rental (LMIR) program by $22 million (from a proposed level of $68 million in 2012 to $90 million in 2013). Of the $90 million budget for LMIR, $70 million will be financed with tax-exempt bonds to enable developments to be eligible for 4% housing tax credits. This increase is shown in the Rental Production line in Table 1.

- The Agency will receive $5.5 million of general obligation bond proceeds and $30 million of housing infrastructure bond proceeds from the 2012 state bonding bill. Bonding proceeds from the state were not available in 2012. In Table 1, the bond proceeds are split between Rental Production and Multiple Use Resources.

- The Agency recently created two new revolving loan funds to support the lending activities of the Twin Cities Community Land Bank (TCCLB) by restructuring $13 million of existing debt and adding $7 million of new funds. Of the $20 million in the two funds, Minnesota Housing estimates that it will commit $12 million during the 2013 AHP. In Table 1, this funding is included in Multiple Use Resources.

- With the floods in Northeast Minnesota, the Legislature appropriated $12.7 million for disaster recovery. The Other category in Table 1 shows this funding.

- There were some slight funding reductions. For example, in 2012, the Agency launched a new pilot program for rental property rehabilitation in rural Minnesota (Rental Rehabilitation Deferred Loan program), largely with a $7 million balance of uncommitted funds from previous years' appropriations. The Agency carried out a successful launch of the program, which will continue in 2013 at a lower level of funding because a relatively large balance of uncommitted funds is no longer available. In addition, the Rental Rehabilitation Deferred Loan (RRDL) contracts are for two years, and local administrators will still be deploying 2012 funds in 2013.

Overall, the Agency developed the funding decisions in the 2013 AHP based on several factors, which include:

- Fulfilling the Agency's mission,
- Following the strategic priorities outlined in the 2013-15 Strategic Plan,
- Accessing all funding sources that the Agency can effectively use to further its mission,
- Matching funding sources with the activities that they can legally and effectively support (state and federal appropriations and federal tax law restrict how funds can be used),
- Serving the full spectrum of low- and moderate-income Minnesota households, which range from extremely-low to moderate income, homeowners to renters, urban to rural, etc.,
- Meeting the varying needs of these Minnesota households,
- Funding a full spectrum of affordable housing activities, which include homeownership, home improvement, new rental construction, rental preservation, rental assistance, supportive housing, homeless prevention, foreclosure prevention, community recovery, etc.,
- Directing "gap/affordability" funds (grants and deferred loans) to the Minnesota households needing the most help to obtain stable housing,
- Examining the long-term sustainability of the funding, and
- Maintaining the Agency's long-term financial strength.

In addition, the Agency is continually investigating ways to provide additional support. For example, the Agency is currently considering becoming a MAP (Multifamily Accelerated Process) lender, which would improve access to low-cost mortgages for multifamily developers and reduce the need for deferred loan financing.

The program categories in Table 1 summarized the 36 programs carried out by the Agency. Table 2 lists each of the programs and their 2013 budget, along with basic program information. For more detailed information about each program, see Appendix C.

## Table 2: 2013 Budget and Program Summary

| | | 2013 Funding | Activity | Median Income Served | Percentage Served from Communities of Color |
|---|---|---|---|---|---|
| | **Homebuyer and Home Refinance** | **$419,306,959** | | | |
| 1 | Home Mortgage Loans | $350,000,000 | First Mortgage | $43,660 | 23% |
| 2 | Mortgage Credit Certificates (MCC) | $50,000,000 | Tax Credit on Interest | N/A | N/A |
| 3 | Homeownership Assistance Fund (HAF) | $5,841,209 | DP and CC Assistance* | $43,536 | 27% |
| 4 | HOME HELP | $4,000,000 | DP and CC Assistance* | $37,607 | 43% |
| 5 | Amortizing Down-payment and Closing Cost Loans | $5,000,000 | DP and CC Assistance* | N/A | N/A |
| 6 | Single Family Interim Lending | $910,000 | Revolving Deferred Loan | $35,220 | 40% |
| 7 | Habitat for Humanity Initiative | $2,000,000 | Homebuyer Financing | $33,900 | 86% |
| 8 | Homebuyer Education, Counseling, & Training (HECAT) | $1,555,750 | Education & Counseling | $34,944 | 26% |
| | **Home Improvement** | **$26,215,000** | | | |
| 9 | Home Improvement Loan Program | $20,465,000 | Home Improvement Loan | $62,750 | 8% |
| 10 | Rehabilitation Loan Program (RLP) | $5,750,000 | Home Improvement Loan | $13,211 | 11% |
| | **Rental Production- New Construction and Rehabilitation** | **$146,947,057** | | | |
| 11 | Low and Moderate Income Rental (LMIR) | $90,000,000 | Amortizing Loan | $21,840 | 38% |
| 12 | Flexible Financing for Capital Costs (FFCC) | $4,000,000 | Deferred Loan | N/A | N/A |
| 13 | Low-Income Housing Tax Credits (LIHTC) | $8,043,053 | Investment Tax Credit | $18,532 | 49% |
| 14 | Affordable Rental Preservation (PARIF and HOME HARP) | $25,315,849 | Deferred Loan | $13,845 | 43% |
| 15 | Housing Trust Fund (Capital) | $12,000,000 | Deferred Loan | $9,060 | 52% |
| 16 | Publicly Owned Housing Program (POHP) | $5,567,979 | Deferred Loan | $11,172 | 41% |
| 17 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | $1,520,176 | Deferred Loan | N/A | N/A |
| 18 | Rental Rehabilitation Loan Program | $500,000 | Amortizing Loan | $27,600 | 89% |
| | **Rental Assistance Contract Administration** | **$179,840,000** | | | |
| 19 | Section 8 - Performance Based Contract Administration (PBCA) | $107,100,000 | Rent Assistance | $10,534 | 37% |
| 20 | Section 8 - Traditional Contract Administration (TCA) | $71,115,000 | Rent Assistance | $11,752 | 24% |
| 21 | Section 236 | $1,625,000 | Interest Rate Reduction | N/A | N/A |
| | **Resources to Prevent and End Homelessness (Non-Capital)** | **$25,074,443** | | | |
| 22 | Housing Trust Fund (HTF) | $10,588,219 | RA and OS** | $7,680 | 64% |
| 23 | Ending Long-Term Homelessness Initiative Fund (ELHIF) | $3,364,781 | RA and OS** | $8,328 | 63% |
| 24 | Bridges | $3,513,771 | Rent Assistance | $9,234 | 28% |
| 25 | Family Homeless Prevention and Assistance Program (FHPAP) | $7,465,000 | Grants | $9,360 | 52% |
| 26 | Housing Opportunities for Persons with AIDS (HOPWA) | $142,672 | Grants | $15,807 | 49% |
| | **Rental Portfolio Management** | **$6,460,090** | | | |
| 27 | Asset Management | $3,100,000 | Loans | N/A | N/A |
| 28 | Financing Adjustment Factor (FAF) / Financing Adjustment (FA) | $3,360,090 | Loans & Grants | N/A | N/A |

| | | 2013 Funding | Activity | Median Income Served | Percentage Served from Communities of Color |
|---|---|---|---|---|---|
| | **Multiple Use Resources** | **$55,005,198** | | | |
| 29 | Economic Development and Housing/ Challenge (EDHC) | $49,489,227 | Loans & Grants | $27,756 | 50% |
| 30 | Technical Assistance and Operating Support | $2,515,971 | Grants | N/A | N/A |
| 31 | Non-Profit Capacity Building Loan Program | $1,000,000 | Revolving Deferred Loan | N/A | N/A |
| 32 | Strategic Priority Contingency Fund | $2,000,000 | Loans & Grants | N/A | N/A |
| | **Other** | **$15,592,951** | | | |
| 33 | Administrative Expenses HOME | $615,415 | Admin. | N/A | N/A |
| 34 | Manufactured Home Relocation Trust Fund | $1,279,536 | Grants | N/A | N/A |
| 35 | Flood Disaster | $12,720,000 | Loans & Grants | N/A | N/A |
| 36 | Disaster Relief Contingency Fund | $978,000 | Loans & Grants | N/A | N/A |
| | **Total** | **$874,441,698** | | | |

* "DP and CC Assistance" is Down-payment and Closing Cost Assistance
** "RA and OS" is Rental Assistance and Operating Support

As shown in Table 2, the two biggest program areas for the Agency are mortgages for homebuyers and home refinancing (line 1) and the administration of Section 8 contracts for project-based rent assistance (lines 19 and 20). Both of these areas are critical for the Agency to fulfill its mission. The mortgage activity allows low- and moderate-income households to pursue the dream of homeownership, which they would have otherwise struggled to achieve. In light of the foreclosure crisis, Minnesota Housing expands its commitment to promote and support successful homeownership. The mortgage program is also the Agency's primary business engine that generates revenues to cover agency-wide operating expenses and fund the Agency's Pool 3/Foundation, which finances grant and deferred-loan activity throughout the Agency. To complement the single family mortgage activity, the Section 8 program (project-based) makes it possible for about 30,000 of the state's lowest income households to spend only 30 percent of their income on rent and utilities. Another large program is the Low Income Housing Tax Credit (LIHTC) program (line 13). While the agency will allocate $8.0 million of tax credits in 2013 to developments for lower income renters, these credits will likely generate between $64 million and $75 million in private capital to finance the developments, depending on the pricing of the tax credits.[3]

Table 2 also includes a new line item for the budget – "Strategic Priority Contingency Fund" (line 32). During the year, a few programs are likely to need additional funds. To be nimble and responsive, the Agency has set aside $2 million of contingency funds to meet those needs.

Table 2 also shows the full spectrum of low and moderate income households that the Agency serves, based on historical data. Rent assistance programs (lines 19-24) typically serve households with incomes around $10,000, while the Home Improvement Loan Program (line 9) serves households in the $60,000 range. The rental property development programs and the homebuyer programs serve households with incomes in between. For comparison, the statewide area median income is $73,900 in 2012.[4]

Minnesota Housing also serves each region of the state in relative proportion to each region's share of households and jobs. This includes the Twin Cities metropolitan area, Greater Minnesota job centers, and rural areas. While the Agency does not use a rigid regional allocation formula, the Agency is committed to monitoring the distribution to determine if it is distributing resources in a manner that is reasonably proportional. This Agency's historical track record of proportional allocations can be found in the Agency's report *Regional Distribution of Minnesota Housing Assistance*.[5]

Finally, Table 2 shows the percentage of households served that are from communities of color or Hispanic ethnicity, based on historical data. Minnesota Housing wants to make sure that households that have traditionally faced barriers to affordable housing have access to its programs. As shown in Table 2, households from communities of color or Hispanic ethnicity represent a relatively large share of the households served by the Agency.

# Key Initiatives

As the previous section outlined, Minnesota Housing provides a full spectrum of housing finance options to serve a wide range of low- and moderate-income households across the state. To enhance these core business functions and implement the 2013-15 Strategic Plan, the Agency will carry out several key initiatives in 2013.

## Financial Operations

The current condition of financial markets and the economy have created challenges for the Agency. With a lackluster recovery from the Great Recession and ongoing concern about the European debt crisis, interest rates in general, and mortgage rates in particular, are expected to remain very low. To spur the economy, the Federal Reserve Bank has committed to keep interest rates low, particularly long-term rates, through 2014. In addition, uncertainty about European debt has made investing in U.S. Treasury securities more attractive, which has also kept U.S. interest rates low. In an environment where mortgage rates are at historic lows, the Agency's ability to effectively use tax-exempt mortgage revenue bonds to finance mortgages with interest rates below these historically low rates has been very limited since the fall of 2008. To alleviate the situation, the federal government created the New Issue Bond Program (NIBP), which allowed the Agency to borrow from the U.S. Treasury at very low interest rates (similar to the 10-year Treasury rate) from the fall of 2009 through December of 2011. NIBP allowed the agency to provide mortgages with interest rates at or below market rates.

With the tax-exempt bond market continuing to face challenges and the expiration of NIBP, the Agency has explored alternative financing strategies. In all likelihood, the Agency will utilize each of the following options to some degree in the coming year.

- **Selling tax-exempt bonds with a different structure.** In the past, the Agency has sold its bonds to traditional buyers of municipal tax-exempt bonds. As discussed, this market has been very challenging, preventing the Agency from receiving favorable interest rates. However, in August of 2012, the Agency developed a unique bond offering by restructuring the bond payments and targeting investors who typically purchase mortgage-backed securities, rather than municipal tax-exempt bonds. All of the mortgages backing these bonds will be insured/guaranteed by the Federal Housing Administration (FHA), USDA-Rural Development, or the Veterans Administration and will be packaged into mortgage-backed securities guaranteed by Ginnie Mae. The bond sale was extremely successful and will be a model for future sales.

- **Selling the Agency's mortgage-backed securities (MBSs) to private investors.** Because the Agency's single family loans are securitized into Ginnie Mae or Fannie Mae mortgage-backed securities, and because there is a very large investor market for these securities, the Agency can form and sell these securities as the loans are originated. At current loan rates, these securities can be sold for an upfront "premium" that approximates what the Agency could expect to earn over time on a bond issue. This funding option will be used to finance any loans originated to non-first-time home buyers since those loans will not be eligible to be included in a tax-exempt bond issue.

- **Issuing mortgage credit certificates (MCCs).** The Agency can convert a portion of its bonding authority to MCCs which allows borrowers receiving an MCC to utilize a portion of their interest expense on a mortgage loan as a tax credit rather than taking an itemized deduction on their tax return.

- **Retaining mortgage-backed securities as Agency investments.** The Agency generates substantial cash flow on a monthly basis, and holding an MBS as an investment can provide a much higher yield than non-loan investment alternatives available to the Agency. Minnesota housing will make investment decisions based on which options generate the best risk-adjusted yield and return for the Agency.

Another source of financing that could be more fully utilized is 4% Low Income Housing Tax Credits for rental housing. These credits are worth about one-third as much as the regular 9% credits, and competition for them is less intense. However, to qualify for them, at least 50% of a development's costs must be financed with tax-exempt bonds. Based on a review of the applications for multifamily financing in the 2012 RFP (request for proposals), Minnesota Housing anticipates providing as much as $70 million of tax-exempt bond financing to developments, making them eligible for the 4% credits. An estimated $45 million of the tax-exempt bond production will likely serve as short term bridge loans.

**Programs that Support Homebuyers, Homeowners, and Home Improvement**

To serve low- and moderate-income homebuyers across the state with varying financial needs and conditions, Minnesota Housing's first mortgage and down-payment/closing cost loans have evolved over time and increased in complexity. To address this complexity, the Agency recently redesigned its first mortgage programs to provide homebuyers with more attractive home-buying financing tools in the current market. The changes include:

- Simplifying the mortgage revenue bond (MRB) compliant programs to one program;

- Providing down-payment and closing cost loans to more borrowers by adding a new interest-bearing, repayable option to supplement the existing interest-free, deferred-loan options; and

- Expanding the pool of eligible borrowers, which will include:
    - Increasing income limits for first-time homebuyer from 80 to 100 percent of area median income on a permanent basis for one and two person households;
    - Increasing the income limit for 3+ person households to 115% of area median income; and
    - Creating non-first-time homebuyer options for home purchases and mortgage refinances.

The Agency expects these efforts to expand production for Minnesota Housing's Home Mortgage Loan Program from $250 million in 2012 to $350 million in 2013. The purpose of these changes is to serve more low- and moderate income homebuyers and homeowners who are not being served by the private market, not to shift resources away from the Agency's traditional borrowers. For example, existing homeowners will be served through Fannie Mae's Preferred Risk Sharing program, which is only available through Housing Finance Agencies (HFAs). In addition, with these changes, Minnesota Housing will maintain its commitment to serving at least as many borrowers with incomes less than 80 percent of area median income and emerging market homebuyers (households of color or Hispanic ethnicity) as the Agency served before these changes.

Minnesota Housing's Board has already approved the changes to the Home Mortgage Loan Program, and the changes should be in place before year-end. Effectively implementing and monitoring these changes will be a primary goal for 2013. The redesigned program will better serve low- and moderate-income homebuyers and homeowners in Minnesota and help promote and support successful homeownership.

In addition, the Agency has revised its home improvement loan products, which it has offered since 1976. Loan volume has varied through the program's history, but traditional activity has been declining in recent years reflecting the economic decline in the broader home improvement sector. Although recent volume has appeared strong, it was temporarily supported by the availability of Energy Saver Rebates, which were funded with federal stimulus money and used to encourage energy-efficient home improvements. While use of the Agency's improvement products has declined, the need is not subsiding. The state's homeowner housing stock is aging with a median of 42 years.[6] In addition, with recent property value declines, some homeowners do not have the equity to secure a traditional home improvement or home equity loan. At the end of 2011, 18.4 percent of Minnesota households with a mortgage were underwater, owing more on their mortgages than their homes are worth.[7]

The home improvement program changes include:

- Offering loans with a lower interest rate (1 percentage point lower) for energy efficiency and home accessibility improvements, increasing lender per-loan payments, and eliminating pre-payment penalties.

- Providing greater clarity in underwriting standards for lenders, including establishing minimum credits scores of 620.

- Re-introducing an unsecured home improvement loan as a way to increase financing options for homeowners with nominal cost improvements and/or limited equity in their homes. To manage risk, the unsecured loans will have a higher interest rate and higher minimum credit score than secured loans. They will also contain an incentive for borrowers that choose payments through automatic withdrawal.

These changes to the home improvement programs went into effect in June, 2012 and are expected to increase loan production over time. Greater production will help the Agency promote and support successful homeownership. Affordably maintaining a home is a key part of being a successful homeowner, but it can be a struggle for low- and moderate-income homeowners. In addition, the unsecured loan option will help communities recover from the price declines caused by the foreclosure crisis and market collapse by allowing underwater homeowners to obtain financing and make essential investments in their homes.

Foreclosures continue to be an issue in Minnesota. The number of sheriff sales increased dramatically from 7,000 in 2005 to a high of 26,000 in 2008. Since then, the number has leveled off – staying between 21,000 and 26,000.[8]

To support community recovery from the foreclosure crisis, the Agency is exploring the possibility of helping establish a contract-for-deed program in Greater Minnesota with $4 million of financing. The program would be similar to the Bridge to Success program that the Agency helped finance with $10.4 million in 2012 in the Twin Cities. Bridge to Success has the goal of increasing the pool of homebuyers of foreclosed properties in targeted metro-area neighborhoods by providing contract-for-deed financing with intensive counseling and monitoring for transactions not yet eligible for traditional mortgage financing.

Finally, the Agency continues to support homebuyer and foreclosure counseling through its Homeownership Education, Counseling Training, and Counseling (HECAT) program ($1.6 million) and the National Foreclosure Mitigation and Counseling (NFMC) program. Minnesota Housing will apply for another round of NFMC funding that may become available. Minnesota has been one of the most successful states in securing and using NFMC funds. Since the creation of the program, the state has received $14.6 million, which is the third highest among states. Only California and Pennsylvania, two more populous states, have received more. The state has used these funds very effectively. Of the households seeking foreclosure counseling, 60 percent avoided foreclosure, with 89 percent of those households staying in their homes.[9]

## Programs that Support Renters and the Homeless

Minnesota Housing is directly involved in two broad-based initiatives to preserve the affordability and physical condition of affordable rental housing. This first initiative is the Minnesota Preservation Plus Initiative (MPPI), which is a partnership among the Family Housing Fund, the Greater Minnesota Housing Fund, and Minnesota Housing with financial support from the MacArthur Foundation. This ongoing initiative continues to expand, accelerate, and leverage the existing preservation work being done in Minnesota. Key activities include:

- Continuing to explore avenues for developing a statewide database of affordable rental housing to better understand the location and characteristics of the state's inventory;

- Significantly expanding the use of Minnesota Housing's property-risk predictive model to facilitate early detection of at-risk properties, which includes monitoring financial, physical, and operational conditions; and

- Funding a feasibility study to explore local threats to existing unsubsidized affordable properties.

The second initiative (PINES, which stands for Preservation: Indentifying Needs and Establishing Strategies) is an internal effort at the Agency that is aligned with MPPI. Under PINES, the Agency will refine and enhance existing data, tools, and processes to be more proactive and preventative in preserving and stabilizing the Agency's multifamily portfolio. In the first year of the initiative, the Agency refined the criteria and thresholds for identifying properties at imminent risk of losing their subsidies without additional investments. In the upcoming year, the Agency will start refining the criteria and thresholds for identifying properties that may not be at imminent risk of losing their subsidies but need investments to stabilize the property and prevent imminent risk in the future.

While preserving the affordability and physical condition of all affordable housing in the state is important Agency work, preserving the state's federally-subsidized rental housing is critical and a strategic priority. Tenants in federally subsidized units only pay 30% of their income on housing (rent and utilities). The state needs to keep and preserve these subsidies. Minnesota has almost 40,000 housing units with federally-funded project-based rent assistance – nearly 31,000 units through Section 8 and 7,000 units through USDA Rural Development. In the spring of 2011, Minnesota staff prepared a preliminary estimate that roughly 30% of the Section 8 units were at risk of leaving the program. In addition, many of these properties are now 30 to 40 years old and becoming dated and needing repair and rehabilitation. A substantial portion of them also lack sufficient reserves to pay for substantial repair and rehabilitation. For example, the Agency recently found that 19% of the Section 8 properties in which the Agency has financing have reserve levels less than $1,500 per unit and another 17% have reserves of $1,500 to $2,999 per unit. Regardless of property condition, reserves of $1,500 per unit are a concern, and reserves between $1,500 and $2,999 per unit are likely a concern, particularly for older properties that are becoming dated.

In addition to focusing on preservation, Minnesota Housing will examine ways that the Agency can fund developments that meet specific and critical needs in rental markets. During the community engagement process for the development the Strategic Plan and the AHP, partners and stakeholders identified specific rental housing needs that were critical to their community, but not necessarily a statewide need. These included shortages of:

- Rental housing in general, reflected by low vacancy rates and rising rents,
- Workforce housing in communities with strong job growth,
- Rental properties with large units (multiple bedrooms) for large families, and
- Affordable senior housing, particularly in older communities.

Putting this priority into practice will be a key goal for the upcoming year. The process will start by evaluating funding applications that the Agency received in 2012 and finding developments that did not score well in the selection process because they did not meet the statewide needs emphasized in the selection process but might meet a critical local need that is clearly documented. In addition, the Agency will emphasize ongoing dialogues with communities about their housing and community development needs. The Agency recently refined the position description for its Community Development Director to focus on this type of work. Finally, ongoing research and data analysis by the Agency related to local needs, such as housing for seniors, will play a key role. Based on these assessments, the Agency will explore ways to refine the selection/funding processes to accommodate critical local needs that are well substantiated and documented.

Minnesota Housing will also examine other ways to adjust funding options to accommodate the identified local needs. For example, the Agency will:

- Continue to work with the National Council of State Housing Agencies (NCSHA) to change requirements under the Low Income Housing Tax Credit (LIHTC) program to allow income averaging. Rather than requiring each tenant to have an income at or below 60 percent of the area median income (AMI), LIHTC would require the average of all the tenants to be at or below 60 percent (with no tenant having an income greater than 80 percent of AMI). This would encourage mixed income developments and support workforce housing. For example, a working family with an income at 78 percent of AMI could live in a tax credit unit as long as they were offset by another household with an income at or below 42% of AMI.

- Encourage mixed-income developments that use Minnesota Housing's multifamily first mortgage program (LMIR – Low and Moderate Income Rental) in combination with a shallow subsidy (deferred loan) to support new construction in communities with low vacancy rates, particularly those with a growing workforce.

- Encourage developments that use resources that are less scarce and competitive (such as tax-exempt bond financing with 4% tax credits) to expand the amount of available resources to meet these local needs.

Preventing and ending homelessness is another strategic priority for Minnesota Housing. While the Agency and its partners have made significant strides in creating permanent supportive housing opportunities for the long-term homelessness, more needs to be done. According to Wilder Research's survey (carried out every three years), the number of homeless increased from 9,244 in 2006 to 13,100 in 2009.[10]

The Agency and its partners need to refocus the state's homelessness efforts. This will include:

- Strengthening the Minnesota Interagency Council on Homelessness (MICH). Minnesota Housing Commissioner Tingerthal has already received the commitment from nine state agency commissioners to participate in MICH and meet on a regular basis to coordinate homelessness efforts across the departments. The work of the commissioners will be supported by regular meetings and work of the agencies' policy directors and program staff.

- Initiating the development of a new plan for ending and preventing homelessness. With the anticipated achievement of 4,000 additional housing opportunities - the primary goal under the state's Business Plan to End Long-Term Homelessness - a new framework needs to be developed that will address the state's effort to prevent and end homelessness.

- Hiring a State Director for Preventing and Ending Homelessness, who will guide the implementation of the state's strategic and business plan to prevent and end homelessness, help align and maximize opportunities with the federal strategic plan, and promote coordination among the state agencies' policies and programs.

- Implementing new federal HEARTH Act requirements. New interim rules for the Continuum of Care (CoC) program have been issued under the federal HEARTH Act. (The CoC program provides a framework for participating organizations to coordinate the delivery of housing and services to address homelessness in a community.) For example, the new interim rules require a coordinated intake and common assessment of all participants receiving support under the CoC programs. In addition, the federal government will start to evaluate CoC organizations not only on their performance of HUD-funded activities but also on non-HUD-funded activities as well. These two changes, among others, will require greater coordination within and across the CoCs with support from Minnesota Housing and the Department of Human Services.

## Agency-Wide / Crossing-Cutting Activities

Minnesota Housing will be leader and strong voice for affordable housing across Minnesota and in Washington DC. Key activities for the year will include:

- Securing state funding for 2014-15 during the 2013 legislative session. Over the last several years, Minnesota Housing has been very successful in demonstrating to the Legislature the need for affordable housing and the success of the Agency's programs in meeting those needs. During the 2012 session, the Agency received $5.5 million in general obligation bond proceeds for rehabilitating public housing and $30 million in housing infrastructure bond proceeds for creating supportive housing for the long-term homeless, preserving affordable rental housing, investing in foreclosed rental properties, and supporting community land trusts. During the 2011 session, Minnesota Housing received only a modest decrease in its state appropriation relative to the size of the projected budget deficit that the Legislature needed to eliminate.

- Advocating nationally for the effective use of federal resources for affordable housing. In July, Commissioner Tingerthal submitted four policy papers to the Bipartisan Policy Center's Housing Commission. The topics covered:

  - A temporary increase in Low Income Housing Tax Credits (LIHTC) for preservation,
  - Continuing rental assistance for USDA Rural Development properties with maturing mortgages,
  - Authority to reallocate chronically unused project-based rent assistance, and
  - An affordable housing and supportive services demonstration for older adults in rural communities.

  As the Bipartisan Commission writes its full report in the fall of 2012 and presents it to the President and Congress in 2013, the Agency will continue to advocate for the adoption of these and other national policy initiatives.

  During the 2013, the Agency will also continue to work with the National Council of State Housing Agencies (NCSHA) and other national partners in advocating for affordable housing funding and strong housing policies that support low- and moderate-income households and effective community development. As the federal government wrestles with its large deficit, maintaining strong Low-Income Housing Tax Credit and Tax-Exempt Mortgage Revenue Bond programs will be particularly important.

During 2013, the Agency will also develop a better understanding how it can effectively support its delivery partners across the state. Minnesota Housing is a finance agency that relies on partners to deliver the products and services that it finances. These partners include lenders, developers, service providers, community groups, counties, cities, housing authorities, and others. For 2013, the Agency has budgeted about $2.5 million for technical assistance and operating support, which is supplemented with another $1.9 million of new commitments from two revolving loan funds for interim lending (the Non-Profit Capacity Building Loan Program and the Single Family Interim Lending program, which have a combined size of $9.3 million in assets). The agency will assess how it can most effectively use these funds and support its partners. For example, in this AHP, the Agency will fund operating support for CHDOs (Community Housing Development Organizations) with $300,000 of Agency Pool 3/Foundations funds.

Minnesota Housing will support the Metropolitan Council as it creates a Fair Housing Equity Assessment (FHEA) for the Twin Cities metropolitan area. The FHEA is a requirement under the Sustainable Communities Regional Planning Grant that the Council received from HUD and will assess issues related to access to opportunities (e.g. quality jobs, schools, transportation, services, and amenities), concentration of poverty, racial segregation, and Fair Housing. This assessment, along with the Agency's own research, will help Minnesota Housing continually assess its RFP (request for proposal) and LIHTC selection criteria. The goal of the criteria is to appropriately balance multiple, and at times competing, priorities – including economic integration, location efficiency, access to opportunities, community revitalization, and preservation of federally subsidized rental housing.

## Funding by Strategic Priority

Table 3 shows Minnesota Housing's funding by strategic priority. The first two sets of priorities are "comprehensive priorities" because almost all of the Agency's funding can be allocated between the two of them. The comprehensive rental category combines two priorities – preserving federally subsidized housing and addressing specific and critical needs in rental housing markets. The last two priorities are "targeted" because only a subset of the Agency's funding is allocated to them. (It should be noted that the same funds can fulfill more than one priority. In addition, the program areas in the shaded boxes are sub-components of the overall program listed above the box.)

As the last line of Table 3 shows, Agency funding is split 56/44 between homeownership and rental housing. As discussed earlier, the expansion of the Agency's homebuyer and refinancing mortgage programs and the availability of new sources of capital increased homeownership activity, but the Agency is also increasing its amortizing lending for rental housing and will use state bonding proceeds largely for rental housing.

The $40.5 million projected for preventing and ending homelessness accounts for 5 percent of the overall budget. These programs include rental production efforts that finance the development of supportive housing units for the long-term homeless. Homeless programming also includes Agency rent assistance (Housing Trust Fund, Ending Long-Term Homelessness Initiative Fund, and Bridges) targeted to vulnerable populations that are homeless or at-risk of becoming homeless, including people with extremely low incomes and/or serious mental illnesses. The Agency also funds prevention efforts through the Family Homeless Prevention and Assistance Program (FHPAP), which provides short-term assistance for services and housing payments. Finally, under HOPWA, the Agency provides grants to meet the housing needs of people with AIDS, HIV-positive status, or a related-disease.

In 2013, the Agency projects that it will invest approximately $207 million to prevent foreclosures and support community recovery. On the prevention side, the Agency expects to invest about $750,000 on foreclosure counseling through the HECAT program. However, at the end of the 2012 AHP, Minnesota Housing committed nearly $1.2 million of National Mitigation and Counseling (NFMC) funds from the federal government for foreclosure counseling. While these funds were made available under the previous AHP, they will support some 2013 activity. In addition, if funds are available, Minnesota Housing will apply for another round of NFMC funding. The agency will likely invest just over $200 million for the purchase and rehabilitation of foreclosed properties or the construction, purchase, or rehabilitation of any property in a zip code that has been heavily impacted by the foreclosure crisis. The last category accounts for the majority of the expected investments. The Agency encourages and incents investment in high impact zip codes through several mechanisms, which include awarding selection points in the RFP process to developments located in these zip codes.

The split of program funding in Table 3 by strategic priority is not an actual allocation, but rather a projection based on historical investment patterns with adjustments for recent program changes and the availability of other funding for similar activities. The actual splits will be made as investment decisions are made by homebuyers, homeowners, developers, and the Agency. Thus, Table 3 provides a general picture of how the Agency expects the funds to be invested.

## Table 3: 2013 Funding by Strategic Priority

| | | | Comprehensive Priorities | | Targeted Priorities | |
|---|---|---|---|---|---|---|
| | | **AHP Total** | **Successful Home-ownership** | **Rental Housing 1. Federal Preservation 2. Critical Needs** | **Homelessness** | **Community Foreclosure Recovery** |
| | **Homebuyer and Home Refinance** | **$419,306,959** | **$419,306,959** | **$0** | **$0** | **$149,025,994** |
| 1 | Home Mortgage Loans | $350,000,000 | $350,000,000 | | | $124,250,000 |
| 2 | Mortgage Credit Certificates (MCC) | $50,000,000 | $50,000,000 | | | $17,750,000 |
| 3 | Homeownership Assistance Fund (HAF) | $5,841,209 | $5,841,209 | | | $2,581,814 |
| 4 | HOME HELP | $4,000,000 | $4,000,000 | | | $2,426,230 |
| 5 | Amortizing Down-payment and Closing Cost Loans | $5,000,000 | $5,000,000 | | | $670,000 |
| 6 | Single Family Interim Lending | $910,000 | $910,000 | | | $600,600 |
| 7 | Habitat for Humanity Initiative | $2,000,000 | $2,000,000 | | | N/A |
| 8 | Homebuyer Education, Counseling, & Training (HECAT) | $1,555,750 | $1,555,750 | | | $747,350 |
| | **Home Improvement** | **$26,215,000** | **$26,215,000** | **$0** | **$0** | **$4,041,130** |
| 9 | Home Improvement Loan Program | $20,465,000 | $20,465,000 | | | $2,701,380 |
| 10 | Rehabilitation Loan Program | $5,750,000 | $5,750,000 | | | $1,339,750 |
| | **Rental Production- New Construction and Rehabilitation** | **$146,947,057** | **$0** | **$146,947,057** | **$14,147,119** | **$28,405,669** |
| 11 | Low and Moderate Income Rental (LMIR) | $90,000,000 | | $90,000,000 | $531,649 | $17,640,000 |
| 12 | Flexible Financing for Capital Costs (FFCC) | $4,000,000 | | $4,000,000 | $78,518 | $784,000 |
| 13 | Low-Income Housing Tax Credits (LIHTC) | $8,043,053 | | $8,043,053 | $372,243 | $1,576,438 |
| 14 | Affordable Rental Preservation | $25,315,849 | | $25,315,849 | $1,164,710 | $4,961,906 |
| 14a | *Affordable Rental Investment Fund - Preservation (PARIF)* | *$14,308,133* | | *$14,308,133* | *$658,276* | *$2,804,394* |
| 14b | *HOME HARP* | *$11,007,716* | | *$11,007,716* | *$506,433* | *$2,157,512* |
| 15 | Housing Trust Fund (Capital) | $12,000,000 | | $12,000,000 | $12,000,000 | $2,352,000 |
| 16 | Publicly Owned Housing Program (POHP) | $5,567,979 | | $5,567,979 | | $1,091,324 |
| 17 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | $1,520,176 | | $1,520,176 | | |
| 18 | Rental Rehabilitation Loan Program | $500,000 | | $500,000 | | |
| | **Rental Assistance Contract Administration** | **$179,840,000** | **$0** | **$179,840,000** | **$0** | **$0** |
| 19 | Section 8 - Performance Based Contract Administration (PBCA) | $107,100,000 | | $107,100,000 | | |
| 20 | Section 8 - Traditional Contract Administration (TCA) | $71,115,000 | | $71,115,000 | | |
| 21 | Section 236 | $1,625,000 | | $1,625,000 | | |

| | | | Comprehensive Priorities | | Targeted Priorities | |
|---|---|---|---|---|---|---|
| | | AHP Total | Successful Home-ownership | Rental Housing 1. Federal Preservation 2. Critical Needs | Homelessness | Community Foreclosure Recovery |
| | **Resources to Prevent and End Homelessness (Non-Capital)** | **$25,074,443** | **$0** | **$25,074,443** | **$25,074,443** | **$0** |
| 22 | Housing Trust Fund (HTF) | $10,588,219 | | $10,588,219 | $10,588,219 | |
| 23 | Ending Long-Term Homelessness Initiative Fund (ELHIF) | $3,364,781 | | $3,364,781 | $3,364,781 | |
| 24 | Bridges | $3,513,771 | | $3,513,771 | $3,513,771 | |
| 25 | Family Homeless Prevention and Assistance Program (FHPAP) | $7,465,000 | | $7,465,000 | $7,465,000 | |
| 26 | Housing Opportunities for Persons with AIDS (HOPWA) | $142,672 | | $142,672 | $142,672 | |
| | **Rental Portfolio Management** | **$6,460,090** | **$0** | **$6,460,090** | **$0** | **$0** |
| 27 | Asset Management | $3,100,000 | | $3,100,000 | | |
| 28 | Financing Adjustment Factor (FAF) / Financing Adjustment (FA) | $3,360,090 | | $3,360,090 | | |
| | **Multiple Use Resources** | **$55,005,198** | **$29,160,000** | **$20,329,227** | **$1,011,058** | **$25,568,128** |
| 29 | Economic Development and Housing/ Challenge (EDHC) | $49,489,227 | $29,160,000 | $20,329,227 | $1,011,058 | $25,568,128 |
| 29a | *Request for Proposals (RFP) - Multifamily and Single-Family* | *$13,489,227* | *$9,160,000* | *$4,329,227* | *$1,011,058* | *$6,102,128* |
| 29b | *Twin Cities Community Land Bank / Family Housing Fund* | *$12,000,000* | *$12,000,000* | | | *$9,000,000* |
| 29c | *Community Owned Mobile Home Parks* | *$2,000,000* | *$2,000,000* | | | |
| 29e | *Greater MN - Contract for Deed* | *$4,000,000* | *$4,000,000* | | | *$4,000,000* |
| 29f | *Infrastructure Bonds: Preservation, Foreclosure, & CLTs* | *$18,000,000* | *$2,000,000* | *$16,000,000* | | *$6,466,000* |
| 30 | Technical Assistance and Operating Support | $2,515,971 | TBD | TBD | TBD | TBD |
| 31 | Non-Profit Capacity Building Loan Program | $1,000,000 | TBD | TBD | TBD | TBD |
| 32 | Strategic Priority Contingency Fund | $2,000,000 | TBD | TBD | TBD | TBD |
| | **Other** | **$15,592,951** | **$11,542,578** | **$2,155,422** | **$250,000** | **$0** |
| 33 | Administrative Expenses HOME | $615,415 | TBD | TBD | TBD | TBD |
| 34 | Manufactured Home Relocation Trust Fund | $1,279,536 | TBD | TBD | TBD | TBD |
| 35 | Flood Disaster | $12,720,000 | $10,703,149 | $2,016,851 | $250,000 | |
| 36 | Disaster Relief Contingency Fund | $978,000 | $839,429 | $138,571 | | |
| | **Total** | $874,441,698 | $486,224,537 | $380,806,239 | $40,482,620 | $207,040,921 |
| | Percentage Split * | | 56% | 44% | 5% | 24% |

Shaded activities are sub-allocations of the program above.
* The sum of homeownership and rental priorities do not equal the total funding because $7.4 million is not allocated to a priority.

# Household Unit Projections

Table 4 shows that Agency's forecast of how many households or housing units will be assisted. As the shown in the last line of the table, Minnesota Housing expects to assist roughly 67,900 households or units. Under the AHP, homeownership programs account for 56 percent of the funds (see Table 3) but only 32 percent of the households/units (see Table 4). In contrast, rental programs account for 44 percent of the funds but 68 percent of the households/units. This shift occurs because homeownership programs require more resources per household. A typical Home Mortgage Loan is $120,000. In contrast, a typical annual rent subsidy is $6,000. The homelessness priority accounts for 5 percent of the funds, compared with 17 percent of the households and units assisted. Foreclosure recovery accounts for 24 percent of the funds, compared with 21 percent of households/units.

**Table 4: 2013 Forecast of Assisted Households or Housing Units by Program and Strategic Priority**

| | | | **Comprehensive Priorities** | | **Targeted Priorities** | |
|---|---|---|---|---|---|---|
| | | **AHP Total** | **Successful Home-ownership** | **Rental Housing** **1. Federal Preservation 2. Critical Needs** | **Home-lessness** | **Community Foreclosure Recovery** |
| | **Homebuyer and Home Refinance** | **18,942** | **18,942** | **0** | **0** | **13,088** |
| 1 | Home Mortgage Loans | 2,917 | 2,917 | | | 1,088 |
| 2 | Mortgage Credit Certificates (MCC) | | | | | |
| 3 | Homeownership Assistance Fund (HAF) | | | | | |
| 4 | HOME HELP | *Part of Home Mortgage Loan Production* | | | | |
| 5 | Amortizing Down-payment and Closing Cost Loans | | | | | |
| 6 | Single Family Interim Lending | *Part of EDH/Challenge* | | | | |
| 7 | Habitat for Humanity Initiative | 25 | 25 | | | N/A |
| 8 | Homebuyer Education, Counseling, & Training (HECAT) | 16,000 | 16,000 | | | 12,000 |
| | **Home Improvement** | **1,470** | **1,470** | **0** | **0** | **221** |
| 9 | Home Improvement Loan Program | 1,200 | 1,200 | | | 158 |
| 10 | Rehabilitation Loan Program | 270 | 270 | | | 63 |
| | **Rental Production - New Construction and Rehabilitation** | **3,984** | **0** | **3,984** | **150** | **762** |
| 11 | Multifamily RFP/HTC/Pipeline Production (including EDHC) | 2,522 | | 2,522 | 150 | 494 |
| 12 | Low and Moderate Income Rental (LMIR) | | | | | |
| 13 | Flexible Financing for Capital Costs (FFCC) | | | | | |
| 14 | Low-Income Housing Tax Credits (LIHTC) | | | | | |
| 15 | Affordable Rental Preservation (PARIF and HOME) | *Part of RFP/HTC/Pipeline Production* | | | | |
| 16 | Housing Trust Fund (Capital) | | | | | |
| 17 | Economic Development and Housing /Challenge - MF RFP and Infrastructure Bonds | | | | | |
| 18 | Publicly Owned Housing Program (POHP) | 1,367 | | 1,367 | | 268 |
| 19 | Rental Rehabilitation Deferred Loan Pilot Program (RRDL) | 95 | | 95 | | |
| 20 | Rental Rehabilitation Loan Program | *Part of RRDL Production* | | | | |

| | | | Comprehensive Priorities | | | Targeted Priorities | |
|---|---|---|---|---|---|---|---|
| | | AHP Total | Successful Home-ownership | Rental Housing 1. Federal Preservation 2. Critical Needs | | Home-lessness | Community Foreclosure Recovery |
| | **Rental Assistance Contract Administration** | **30,227** | **0** | **30,227** | | **0** | **0** |
| 21 | Section 8 - Performance Based Contract Administration (PBCA) | 17,850 | | 17,850 | | | |
| 22 | Section 8 - Traditional Contract Administration (TCA) | 11,853 | | 11,853 | | | |
| 23 | Section 236 | 524 | | 524 | | | |
| | **Resources to Prevent and End Homelessness (Non-Capital)** | **11,533** | **0** | **11,533** | | **11,533** | **0** |
| 24 | Housing Trust Fund (HTF) | 1,756 | | 1,756 | | 1,756 | |
| 25 | Ending Long-Term Homelessness Initiative Fund (ELHIF) | 631 | | 631 | | 631 | |
| 26 | Bridges | 685 | | 685 | | 685 | |
| 27 | Family Homeless Prevention and Assistance Program (FHPAP) | 8,294 | | 8,294 | | 8,294 | |
| 28 | Housing Opportunities for Persons with AIDS (HOPWA) | 166 | | 166 | | 166 | |
| | **Rental Portfolio Management** | **250** | **0** | **250** | | **0** | **0** |
| 29 | Asset Management | 120 | | 120 | | | |
| 30 | Financing Adjustment Factor (FAF) / Financing Adjustment (FA) | 130 | | 130 | | | |
| | **Multiple Use Resources** | **681** | **681** | **0** | | **0** | **456** |
| 31 | Economic Development and Housing/ Challenge | | | | | | |
| 31a | Request for Proposals (RFP) - **CRV Only** | 431 | 431 | | | | 285 |
| 31b | Twin Cities Community Land Bank/Family Housing Fund | 87 | 87 | | | | 87 |
| 31c | Community Owned Mobile Home Parks | 56 | 56 | | | | |
| 31d | Greater MN - Contract for Deed | 40 | 40 | | | | 40 |
| 31e | Infrastructure Bonds - **CLTs Only** | 67 | 67 | | | | 44 |
| 32 | Technical Assistance and Operating Support | | | | | | |
| 33 | Non-Profit Capacity Building Loan Program | | | | | | |
| 34 | Strategic Priority Contingency Fund | TBD | TBD | TBD | | TBD | TBD |
| | **Other** | **766** | **454** | **312** | | **125** | **0** |
| 35 | Administrative Expenses HOME | | | | | | |
| 36 | Manufactured Home Relocation Trust Fund | TBD | TBD | | | TBD | |
| 37 | Flood Disaster | 719 | 420 | 298 | | 125 | |
| 38 | Disaster Relief Contingency Fund | 47 | 34 | 14 | | | |
| | **Total** | 67,852 | 21,546 | 46,306 | 0 | 11,808 | 14,528 |
| | | | 32% | 68% | | 17% | 21% |

Table 4 shows some programs shaded in gray. With respect to the homebuyer programs, these programs support the Agency's home mortgage loans with enhancements, such as down-payment and closing cost assistance. Because all the homes supported by these enhancements are also supported by the Agency's home mortgage loans, the table does not count the enhanced units in the total to avoid double counting. With respect to the rental production programs, funding from multiple programs often go into the same properties. A development could receive a first mortgage from LMIR, housing tax credits, and a deferred loan through the Economic Development and Housing/Challenge program.

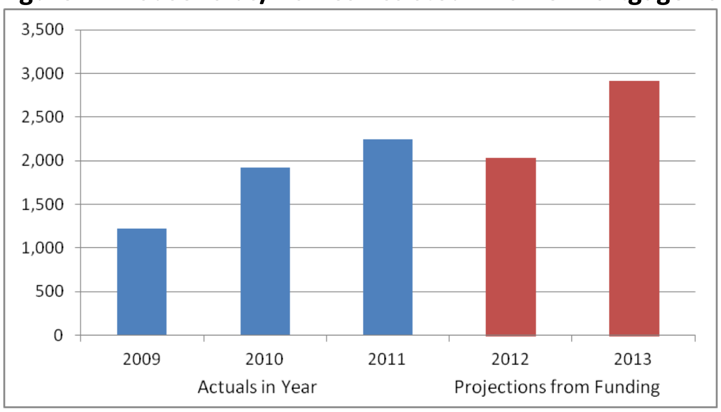
To avoid double counting, Table 4 presents all the rental units financed with these programs in combination.

The following graphs show the estimated number of households/units that will be assisted with 2013 funding in relation to the number of households/units assisted in previous years. The graphs are organized by the broad program categories and exclude activity related to disasters/floods, which are intermittent and not part of the Agency's baseline activity.

## Homebuyer and Home Refinance Programs

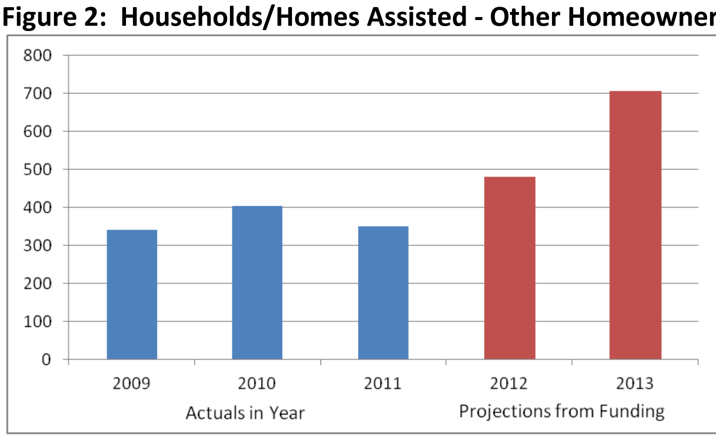
Figure 1 shows the Agency's production in home mortgage loans recovering after the housing bust in 2008. The large increase in production in 2013 reflects the expanded lending activity that the Agency will carry out with redesigned programs and additional financing sources.

**Figure 1: Households/Homes Assisted - Home Mortgage Loan Program**



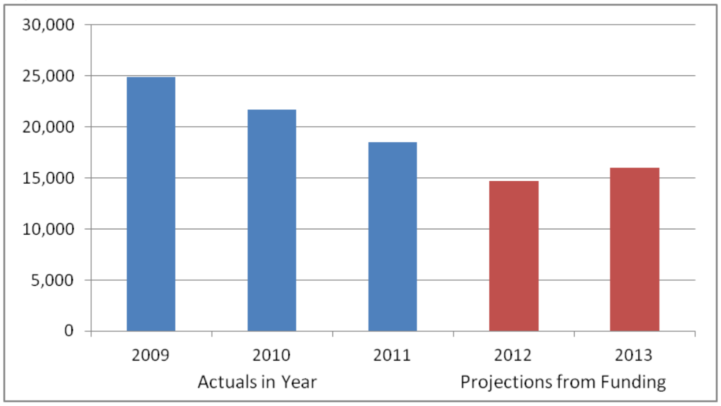

The large increase in other homeownership opportunities (Figure 2) reflects a larger than typical Economic Development and Housing/Challenge budget for RFP activities, which will likely support additional single-family projects. In addition, the Agency restructured two loans as revolving funds ($20 million total) that support lending by the Twin Cities Community Land Bank.[11] During this AHP, the Agency assumes that $12 million of loan commitments will occur under these revolving funds. (The programs captured in Figure 2 include the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program, and Single Family Interim Lending.)

**Figure 2: Households/Homes Assisted - Other Homeownership Opportunities**



The decline in education and counseling assistance (Figure 3) largely reflects the reduced funding and need for foreclosure counseling as mortgage delinquency and foreclosure rates in Minnesota have declined since the peak of the foreclosure crisis. While the number of mortgage delinquencies and foreclosures has declined slightly, there is still a critical need for these counseling resources.

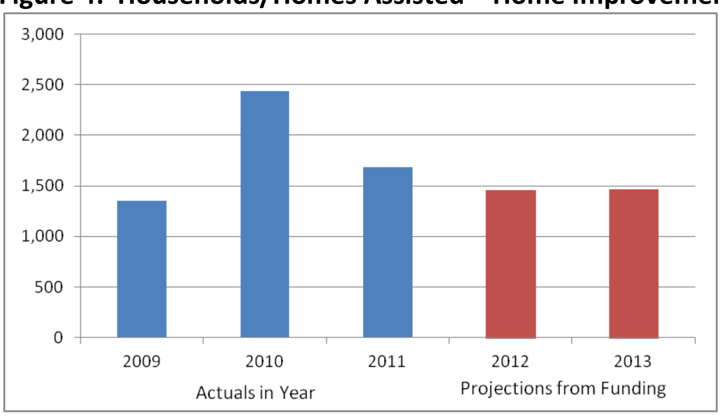
**Figure 3: Households Assisted – Homebuyer/Homeowner Education and Counseling**




## Home Improvement Programs

Home improvement production (Figure 4) has been limited since the downturn in the economy in 2008. Production was high in 2010 because of federal stimulus funds that financed the Energy Saver Rebate program provided an incentive for energy efficiency improvements. (Figure 4 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

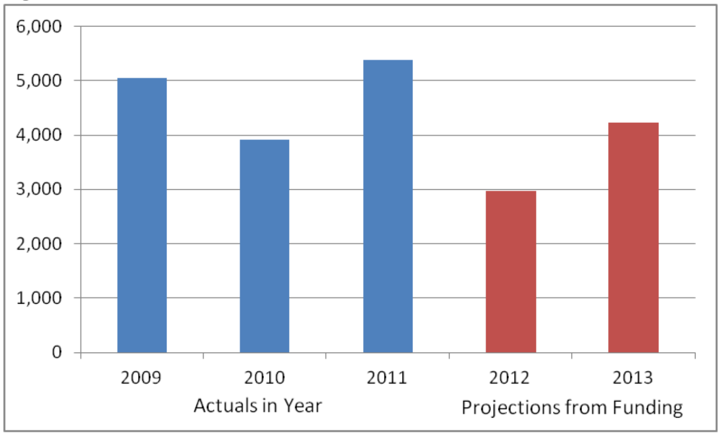
**Figure 4: Households/Homes Assisted – Home Improvement Programs**




## Rental Production and Rental Portfolio Management

Rental production (new construction and rehabilitation) has varied over the last several years. Production should be higher in 2013 than 2012 largely because of state bonding proceeds from general obligation and housing infrastructure bonds and additional LMIR lending. (Figure 5 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.)

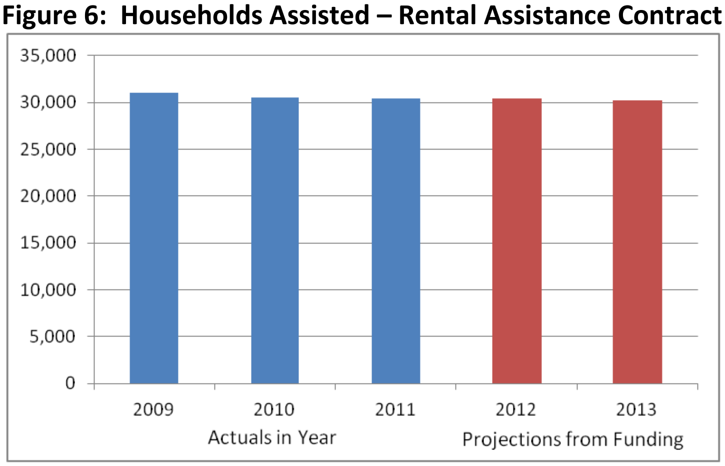
**Figure 5: Units Assisted – Rental Production**




## Rental Assistance Contract Administration

As shown in Figure 6, activity in the Section 8 and 236 contract administration has been very steady over the last several years.

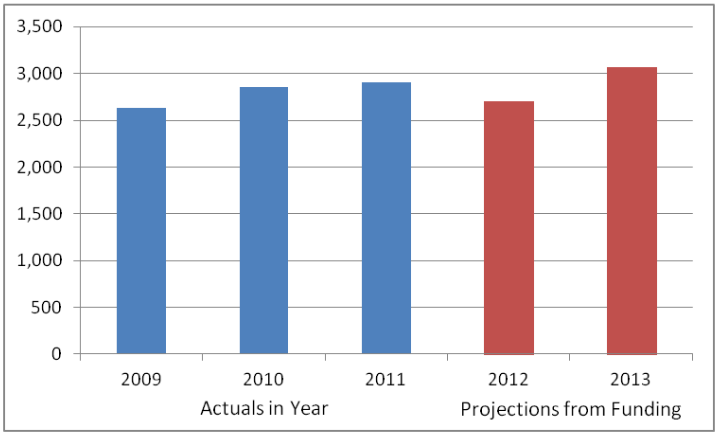
**Figure 6: Households Assisted – Rental Assistance Contract Administration**




## Resources to Prevent and End Homeless (Non-Capital)

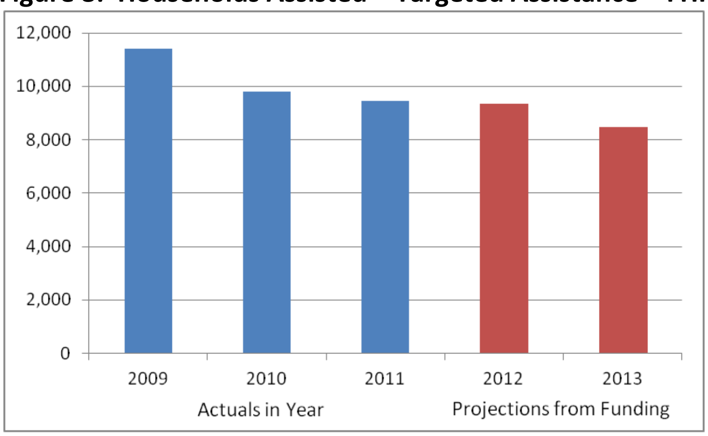
Activity under the Agency's rental and operating assistance programs (Housing Trust Fund, Ending Low-Term Homelessness Initiative Fund, and Bridges) has been relatively stable over the last few years. (See Figure 7.)

**Figure 7: Households/Units Assisted – Agency Rental and Operating Assistance**




The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and the Housing Opportunities for Persons with AIDS (HOPWA) program has declined slowly over the last few years. There was an initial decline in funding; however, since then, the average cost of assistance per household has increased, thereby reducing the number of households assisted.

**Figure 8: Households Assisted – Targeted Assistance – FHPAP and HOPWA**



# Funding by Source

Table 5 shows the 2013 funding levels by source of funds.

**Table 5: 2013 Funding by Source**

| | Original 2012 AHP | Proposed 2013 AHP |
|---|---|---|
| Federal Funds | $211,448,439 | $207,008,946 |
| State Appropriations | $58,556,573 | $73,754,883 |
| State Bonds (General Obligation and Housing Infrastructure) | | $35,500,000 |
| Bond Proceeds & Other Mortgage Capital | $290,000,000 | $470,000,000 |
| Housing Investment Fund (Pool 2) | $69,400,000 | $64,500,000 |
| Housing Affordability Fund (Pool 3) - Regular | $17,917,268 | $21,997,869 |
| Housing Affordability Fund (Pool 3) - Revolving Funds | $11,285,000 | $1,680,000 |
| Total | $658,607,280 | $874,441,698 |

There are several reasons for the changes in funding by source between 2012 and 2013.

- The reduction in federal resources reflects fewer HOME funds being available.

- Funds from state appropriations are higher in 2013, largely because of the $12.7 million appropriated for the Northeast Minnesota floods.

- The 2012 state bonding bill is providing $35.5 million of proceeds that were not available under the previous plan.

- Agency bond proceeds and other mortgage capital budgeted under this plan are significantly higher than the previous plan. As discussed earlier, for homeownership financing, Minnesota Housing will start using additional tools, which will include selling mortgage-backed securities on the secondary market and possibly issuing Mortgage Credit Certificates (income tax credits for homeowners for a portion of the mortgage interest that they pay). For rental housing, the Agency will be financing more amortizing loans with tax-exempt bonds.

- Pool 2 resources budgeted under the 2013 AHP will decrease by about $5 million from the original 2012 plan. This reflects less Low and Moderate Income Rental (LMIR) lending with Pool 2 resources (with more LMIR lending supported with bond proceeds). The reduction in LMIR Pool 2 activity is partially offset by new Pool 2 funding for the Twin Cities Community Land Bank under the Economic Development and Housing/Challenge program and an amortizing down-payment/closing-cost loan option to support the Home Mortgage Loan activity.

- Regular Pool 3 resources increased by about $4 million. Part of the increase will occur because the Agency is transferring $3 million out of two revolving loan funds back into Pool 3 for general use. (See next bullet for details.)

- Both the Single-Family Interim Lending and Non-Profit Capacity Building Loans are revolving funds that were originally funded with Pool 3 resources. Many of these loans have a 20 month term. Thus, under the traditional two-year AHP, these funds typically revolved once during the AHP. Consequently, loan commitments during a two-year AHP generally equaled the overall size of the fund. When developing the 2012 AHP (the first one-year AHP), staff made the simplifying assumption that these funds would continue to revolve once during the year, which did not occur. For the 2013 AHP, staff developed more precise estimates of the loan commitments that will likely occur during the year as the funds partially revolve. The last line of Table 5 shows the $1.68 million estimate. In the process of developing this estimate, staff identified $2 million in the Single-Family Interim Lending fund and $1 million in the Non-Profit Capacity Building Loan fund that are unlikely to be needed in the future. Rather than allowing these funds to sit in the revolving funds unused, the Agency is transferring the $3 million back to the regular part of Pool 3 for general use.

To identify funds available under this plan by source, staff projected the resources that will be available to Minnesota Housing from each source during the year. The plan allocates funds from five primary sources as described below. The precise amount of some funding categories 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 used 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) housing tax credits. For purposes of the plan, current funding levels are used for the HUD appropriations – Section 8/236, HOME, and Housing Opportunities for Persons with AIDS (HOPWA) – and will be adjusted once Congress has adopted the year's budget. 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 from the state is based on the 2012-13 general fund budget adopted by the 2011 Minnesota Legislature. The Agency generally split the appropriations evenly between 2012 and 2013. It also includes disaster funds appropriation in August of 2012.

**State Bond Proceeds.** These funds come from the state capital budget (bonding bill) and include general obligation and housing infrastructure bond proceeds.

**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 made available to the Agency 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. However, market conditions have made it difficult to fully utilize all of the available bonding authority. To access these under-utilized resources, the Agency may issue mortgage credit certificates, which will count against the state's bonding authority. In addition, the Agency will be selling some its mortgage-backed securities on the secondary market to access attractively-priced private capital, which is a new financing tool for the agency.

**Agency Resources.** Minnesota Housing generates resources from its lending activities and makes them available for investment in housing programs. Agency resources are currently categorized as follows:

- Housing Investment Fund (also known as "Pool 2"). The Housing Investment Fund's balance is set according to the net asset requirements and investment guidelines adopted by the Board in April, 2007 after review and confirmation with the rating agencies and the agency's 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/foundation) 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 loans and investment grade securities as defined by the agency. 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 (also known as "Pool 3/Foundation"). The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund above, and its balance is the net assets in excess of the required balances in Pools 1 and 2. The sources of ongoing funding for Pool 3 are transfers of a portion of current period earnings from Pool 2, combined with any repayments or prepayments from loans previously funded under Pool 3. This fund is more flexible than the Housing Investment Fund as it may be used for programs not resulting in amortizing, investment quality loans, including deferred loans and grants.

# Authorization of Adjustments

Minnesota Housing staff are aware of several adjustments that may be needed during the 2013 AHP. With the adoption of the 2013 AHP, the Agency's board is authorizing staff to make the following adjustments, if needed:

- The AHP, as written, splits the $30 million of housing infrastructure bond proceeds by allocating $12 million to the Housing Trust Fund for supportive housing and $18 million to the Economic Development and Housing/Challenge program for preservation, rental foreclosure, and community land trust activities. These splits are estimates. Depending on which developments are funded under the RFP and their funding needs, the Agency may need to change the allocation to reflect those needs.

- The federal HOME program funds a few Minnesota Housing programs. Once HOME funding for 2013 is established by federal appropriation, staff will only adjust funding for the HOME Affordable Rental Preservation program to reflect any difference between the estimated HOME funding and the actual level (after HOME Administrative Expenses are adjusted to reflect the 10 percent cap on administrative expenses). The HOME HELP will not receive an adjustment.

- Any funding adjustments made by the federal government to Low Income Housing Tax Credits, Housing Opportunities for Persons with AIDS, Section 8 or Section 236 will occur in those individual programs.

- The Agency has three primary revolving loan accounts – Single Family Interim Lending, Non-Profit Capacity Building, and Twin Cities Community Land Bank / Family Housing Fund. To more accurately reflect program activity in the AHP, staff have estimated and reported the commitments that will likely occur under these accounts during the year, rather than the overall size of the accounts. However, if funds are available in the accounts and there is demand beyond the original estimates, staff will make additional loans.

- Funding for several programs include funds that become available when existing loans are repaid and contributions from partner organizations are received (see the funding tables in Appendix C). The AHP, as written, reflects staff's current estimates for these repayments and contributions. If the Agency receives more repayments and contributions than estimated, staff will make the additional funds available for commitment.

Staff will notify the Board on a quarterly basis regarding any adjustments made to the AHP in accordance with this authorization.

# Notes

[1] Minnesota Housing analysis of data from the U.S. Census Bureau, 2000 Decennial Census and 2010 American Community Survey.
[2] In this context, lower-income households have annual incomes less than $50,000. In 2010, the statewide area median income (AMI) was $73,000. A household income of $50,000 was 68 percent of the statewide AMI.
[3] A credit is be used to offset 10 years of tax liability. Thus, a $100,000 tax credit will generate $1 million of tax breaks over the 10 years. In today's syndication market, credits can sell for 80 to 90 cents on the dollar, or higher.
[4] U.S. Department of Housing and Urban Development, Notice on Median Family Incomes for FY 2012 (December 1, 2011); http://www.huduser.org/portal/datasets/il/il12/Medians2012.pdf.
[5] Minnesota Housing, *Regional Distribution of Minnesota Housing Assistance* (August 2012); http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa_011777.pdf.
[6] Minnesota Housing analysis of data from the U.S. Census Bureau, 2010 American Community Survey.
[7] CoreLogic Press Release, CoreLogic Report Negative Increase in Q4 2011 – March 1, 2012.
[8] Minnesota Housing analysis of data from HousingLink.
[9] Homeownership Center, *2011 Foreclosure Counseling Program Report*.
[10] Wilder Research, *Homelessness in Minnesota: Key Findings from the 2009 Statewide Survey.*
[11] The two new revolving loan funds were financed with funds from an existing $10 million loan (non-revolving) to the Family Housing Fund, $3 million that used to be part of a revolving fund for My Home Source, and $7 million of new Pool 2 funds.