



## Request for City Council Committee Action from the Department of Community Planning and Economic Development

**Date:** February 28, 2012

**To:** Council Member Lisa Goodman, Chair, Community Development Committee  
Council Member Betsy Hodges, Ways and Means/Budget Committee

**Subject:** Approve a loan of \$250,000 for credit enhancement for the Bridge to Success™ 2012 program

**Recommendation:** Approve the following:

- Approve a loan to Bridge to Success in the amount of \$250,000
- Amend the 2012 General Appropriation Resolution by increasing the Community Planning and Economic Development agency Fund 01SRF – Residential Finance (01SRF-8900000-8900220) appropriation by \$250,000 from the available fund balance.

**Previous Directives:** There have been no previous actions concerning the Bridge to Success™ 2012 program.

### Department Information

Prepared by:	Mark S. Anderson, Senior Contract Management Specialist	
Approved by:	Thomas Streitz, Director of Housing Policy and Development	_____
	Charles T. Lutz, Deputy CPED Director	_____
	Jeff Streder, Development Finance Director	_____
Presenter in Committee:	Mark Anderson	

### Financial Impact

- Action requires an appropriation increase to the Operating Budget

Dept Name: Community Planning and Economic Development  
Fund Name: Residential Finance (01SRF-8900220)  
Amount: \$ 250,000

- Action is within the Business Plan
- Action requires a change to the Business Plan
- Request provided to the Finance Department

### Community Impact

- City Goals: In five years, all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

## Supporting Information

For the past several years, Greater Metropolitan Housing Corporation (GMHC) and Dayton's Bluff Neighborhood Housing Services have partnered together to offer a contract for deed program to allow homebuyers the opportunity to purchase a home. The program allows homeowners who are not yet able to qualify for traditional homebuyer financing the chance to own a home and at the same time rebuild their credit rating and credit score. The goal is that they will eventually be able to refinance the contract for deed into a traditional mortgage. The program has been provided under the name Sustainable Home Ownership Program (SHOP).

The trial period for SHOP has been successful and many homebuyers have already been able to obtain a traditional mortgage to pay off the contract for deed. Some are still in the credit rebuilding stage while others are ready for a mortgage, but market conditions have lowered the value of the home below the amount owed. These credit ready buyers will eventually refinance when they pay down the balanced owed or if home values recover to a point where they can obtain a traditional mortgage. Credit performance and experience to date has been as expected, with a default rate of approximately five percent, and delinquencies and loan modifications performing at levels as planned.

Now that the program has been through a trial period, SHOP is ready to expand and the new program will be called Bridge to Success™ 2012. New investors have been identified who will provide over \$53 million for more contracts for deed. The anticipated investment of funds is as follows:

• Class A – Private	\$31,150,000
• Class B – MHFA	10,400,000
• Class C – Philanthropic	5,200,000
• Class D – Philanthropic	2,250,000
• Class E – Family Housing Fund	3,000,000
• Credit Enhancement – St. Paul	250,000
• Credit Enhancement – Minneapolis (proposed)	250,000
• Credit Reserve	<u>1,150,000</u>
TOTAL	<u>\$53,650,000</u>

The proposed credit enhancement funds from Minneapolis would be provided as an interest free loan to the Bridge to Success™ program for the duration of the program which is expected to be 13 years.

The way the funds flow through the program is that the majority of the monthly principal and interest payments made by the borrowers are passed through to the investors. All principal will go to pay down the highest class of investor until that investor is paid off (i.e. class A, then B, then C, then D, and finally E).

The interest portion of the borrower's payments is passed through to each of the investors until all the investors get what they are due that month. Assuming delinquencies remain at current averages, the excess interest is then deposited in the credit reserve account which should grow over time. The credit reserve will be used to cover any shortfalls in the payments owed to the investors.

Because of the flow of funds previously outlined, the primary risk of loss will be to the credit reserve funds. Credit enhancement funds will only be used if there are insufficient funds remaining in the credit reserve to cover the required principal payments.

The cash flows that most closely match the delinquency and default rates under SHOP indicate that for the Bridge to Success™ program the credit enhancement would not be used at all to make principal payments. If the delinquency and default rates are higher than anticipated, there is a chance that at least some of the credit enhancement funds would be used for the payment of principal to investors at the end of the program.

The long term benefit to the City by participating in this program is that, based upon past performance, approximately 50% of the home sales (about 200 Minneapolis homes) should occur in Minneapolis. This would essentially mean that with the City's loan of \$250,000, the City could gain approximately \$25 million in private investment in home sales. Additionally, it is envisioned that most of the home sales will be focused in areas hardest hit with foreclosure. Furthermore, this program should compliment the city's Neighborhood Stabilization Program (NSP) by increasing the number of eligible buyers for completed and marketed properties. The reduced time on the market will encourage the developers to take on rehabbing more properties at a time. Increasing the level of owner occupancy in these neighborhoods should encourage greater numbers of home sales occurring without the City's investments, further enhancing the City's home ownership and redevelopment efforts in these neighborhoods.

This program is not limited to the sale of homes currently owned by GMHC, but will instead be available for the sale of other city-approved developers' homes. The program will also be available to buyers who work with GMHC on the credit counseling part of Bridge to Success™ 2012 but who find a home that is not specifically developed as part of a City development process.

In all cases, fee title to the property will pass from the current owner or developer to SHOP 2012 LLC (registered as a Minnesota limited liability company) the legal entity established for this program. The LLC will then assume all the responsibilities of the developer under the NSP program (or other program if required). Subsequent to their acquisition of the fee title, the LLC will enter into a contract for deed with the buyer. Again the buyers will continue to work with Bridge to Success™ 2012 counselors on budgeting and credit to assure their long term success in the program. Once they are in a position to qualify for a traditional mortgage, they will then seek a traditional mortgage and pay off the contract for deed, thereby, gaining full fee title to the property.