

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

Date: January 27, 2009

To: Council Member Lisa Goodman, Chair, Community Development Committee
Council Member Paul Ostrow, Ways and Means/Budget Committee

Subject: Approval of the Minneapolis Advantage Program for 2009

Recommendation: Approve the following:

- Accept a grant from Federal Home Loan Bank (FHLB) in the amount of \$1,500,000 to support a new phase of the Minneapolis Advantage Program (MAP) and authorize the Finance Officer or his designee to sign any necessary agreements with the FHLB related to this grant;
- The MAP guideline revisions as outlined in this report;
- Increase the 2009 Revenue Budget for the Community Planning & Economic Development agency Fund 01600 – Other Grants – State and Local (01600-8900900-321404) by \$1,500,000;
- Amend the 2009 General Appropriation Resolution by increasing the Community Planning and Economic Development agency Fund 01600 – Other Grants – State and Local (01600-8900000-8900220) appropriation by \$1,500,000;
- Authorize the appropriate City staff to amend the Greater Metropolitan Housing Corporation (GMHC) contract to include \$1,500,000 of FHLB funds and \$500,000 of UDAG funds to cover program costs, and \$220,000 mortgage program funds to cover administrative costs;
- Amend the 2009 General Appropriation Resolution by increasing the Community Planning and Economic Development agency Fund 01SRF – Residential Finance (01SRF-8900000-8900220) appropriation by \$220,000 from the available fund balance.

Previous Directives: In April of 2008 the Council approved a demonstration phase for the Minneapolis Advantage Program which was funded by \$500,000 from fund 01SPH (the Legacy Fund).

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Approved by: Tom Streitz, Director of Housing Policy and Development _____
Charles T. Lutz, Deputy CPED Director _____

Presenter in Committee: Mark Anderson

Financial Impact

_____ No financial impact

- Action requires an appropriation increase to the Capital Budget or Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification: The demonstration phase of this program was developed in cooperation with the Come Home to Camden Housing Coalition (CHC), the Folwell, McKinley, and Webber-Camden neighborhoods in the Camden Community. The demonstration phase went through a 45 day review and comment period in the neighborhoods.

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

Minneapolis has experienced a significant rise in foreclosures which is having a crippling effect upon the sales of homes in some neighborhoods. In response to this recent housing crisis, in April 2008 the City Council approved a demonstration program called Minneapolis Advantage Program (MAP) to provide \$10,000 deferred loans to buyers of houses in neighborhoods heavily impacted by foreclosures. The program was funded with \$500,000 of City funds which provided 50 loans that are forgiven over a five year period of time at 20% forgiveness per year. A report was sent to the Council in October which outlined program outcomes.

The expectation at the start of MAP was that if it proved successful in the demonstration phase, then the City would consider providing additional funding to continue the program. The October report provided statistics which demonstrate that the program was effective in encouraging the public to buy in the communities stressed by foreclosures.

In an effort to increase the available funding to continue MAP, last fall staff prepared and submitted an application to the Federal Home Loan Bank (FHLB) to seek \$500,000 in funds for each of three designated areas. The attached map identifies those areas. The selection of these neighborhoods was based upon the level of foreclosure activity over the past two years as well as the number of vacant and boarded properties. The split of the neighborhoods to place them in each specific area was based upon the performance of the program during the demonstration phase.

Federal Home Loan Bank funds:

Staff is pleased to report to the Council that the FHLB approved Minneapolis' request for all \$1.5 million. There are conditions to this new funding which vary from the MAP demonstration phase:

- Funds may only finance the purchase of foreclosed properties. Vacant and boarded properties are not eligible unless they are vacant because of a foreclosure.
- The program has the following income limits:
 - ~ 60% of the funds are reserved for borrowers at or below 80% of median income
 - ~ 10% of the funds are reserved for borrowers at or below 60% of median income
 - ~ 30% of the funds are reserved for borrowers at or below 50% of median income
- The loan is fully repayable during the first five years and on the fifth anniversary it is forgiven.
- The FHLB funds must be fully committed within 18 months.

In addition to those changes required by the FHLB, staff has done further study on the impact for foreclosures and is recommending the addition of two more neighborhoods to be eligible for the program because they fall within the same impact levels as the neighborhoods identified as part of the program. These neighborhoods are Audubon Park and Sheridan.

No other changes to the program are required by the FHLB, however, the CPED Director has directed staff to do everything possible to leverage additional funds to supplement scarce capital for downpayment assistance in impacted areas. As a result, it is the intent of staff to reserve 20% of the funds to provide matches for housing investments in the event that other investors, companies, foundations, or other entities, have made investment in downpayment assistance or housing initiatives in impacted areas and the MAP loans can be used to supplement those investments. Special priority would be provided to those who provide assistance to borrowers whose workplaces located in or close to one of the MAP areas. In addition, the investor must be contributing a dollar for dollar match to the MAP investment.

Local funds for MAP

In addition to the funds from the FHLB, the 2009 budget contained \$500,000 from UDAG funds that would be used for this program. Staff has recommended that the program remain the same as the demonstration phase except for the following changes:

- In place of having no income limit, staff recommends that the limit be set at 120% of the area median which will make it consistent with the Neighborhood Stabilization Program funds.
- Instead of simply requiring that the home be on a block with a vacant and boarded or foreclosed home, it is recommended that the house must be foreclosed or vacant and boarded.

- Consistent with the FHLB program, the loan would be fully repayable during the first five year and on the fifth anniversary it would be forgiven.
- We would, also, limit the funds to the same neighborhoods as the FHLB financed portion of this program

Staff recommends no other changes to the program and, once again, if approved as presented, staff intends to reserve 20% of the funds with the same parameters as those applied to the FHLB funds.

Finally, the City has a contract with the Greater Metropolitan Housing Corporation (GMHC) to serve as the lender and administrator for CPED mortgage and home improvement programs and if the program is approved as outlined in this report, GMHC will serve as the MAP administrator. In addition, once originated, the loans will be transferred to Community Reinvestment Fund (CRF) for loan servicing and the City must cover those additional servicing costs. Staff is requesting the Council's approval of an appropriation increase of \$220,000 from the fund's balance in fund 01SRF to pay for GMHC's and CRF's contractual services.