

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

**Date:** March 22, 2011

**To:** Council Member Lisa Goodman, Chair, Community Development Committee

**Subject:** Interim Construction Financing for the Home Ownership Works Program

**Recommendation:** CPED recommends that the City Council 1) Approve modification to the Home Ownership Works Program allowing for the use of the program funds as a revolving loan fund for construction financing with a 2% loan origination fee which will be recycled back into the program to assist future projects, paid by the developer and 2) authorize the execution of loan and related agreements for this purpose with the CPED Director-approved non-profit developers.

## **Previous Directives:**

On June 22, 2010, City Council approved contracting non-NSP single family Home Ownership Works Program funding on a first-come first-serve basis to selected developers that indicated interest in these funds in response to the City's Request for Qualifications. On November 17, 2009, City Council approved an amendment of the HOW Program Guidelines and the City's 2009 Consolidated Plan to match the Program Guidelines. On April 10, 2009, City Council approved the 2009 Consolidated Plan. On December 11, 2008, City Council approved the appropriation resolution, City Budget footnote directing staff to develop and carry out the intent of the 2009 Consolidated Plan. On September 16, 2008, City Council approved increasing the Real Estate Agency Broker Compensation to 2.75% of the sale price. On April 6, 2006, City Council approved the Home Ownership Works Program guidelines. On January 20, 2006, City Council approved the following program changes: increase the Real Estate Agency Broker Compensation to \$5,000; increase the Maximum HOW Buyer Affordability Loan to \$30,000; implement the non-profit construction management reimbursement for management of new construction projects; and, direct staff to bring in an amendment to the Real Property Disposition Policy to allow for sale of properties through the Home Ownership Works program to eligible buyers prior to having an identified buyer. On February 21, 2002, the MCDA Board of Commissioners increased the HOW Broker Participation payment to \$3,500. On January 24, 2000, the MCDA Board of Commissioners gave authorization to execute marketing contracts with Northside Residents Redevelopment Council (NRRC) and Powderhorn Residents Group (PRG) in the amount of \$8,500 each, for overall general marketing responsibilities. Additionally, an amount of up to \$2,500 for each successful closing as outlined in the HOW Broker Participation Agreement was also approved.

## **Department Information**

Prepared by: Edie Oliveto-Oates, Senior Project Coordinator, Phone 612-673-5229

Approved by: Charles T. Lutz, Deputy CPED Director \_\_\_\_\_

Approved by: Thomas Streitz, Housing Director \_\_\_\_\_

Presenters in Committee: : Edie Oliveto-Oates, Senior Project Coordinator

## **Financial Impact**

- No financial impact

## **Community Impact**

- Neighborhood Notification – Not Applicable

- City Goals – Livable Communities, Healthy Lives: High-quality, affordable housing for all ages and stages in every neighborhood.
- Comprehensive Plan
  - Policy 3.1: Grow by increasing the supply of housing.
  - Policy 3.3: Increase housing that is affordable to low and moderate income households.
- Zoning Code – Not applicable
- Other – Not applicable

### **Supporting Information**

The Home Ownership Works program (HOW) is designed to address the goal of providing opportunities for households who otherwise would have difficulty attaining home ownership. This is accomplished by rehabbing vacant properties and developing properties in need of demolition and new construction. On projects that are approved, CPED provides a subsidy of up to \$50,000 per property for sale to an income-qualified home buyer.

Under the HOW program, buyers must meet HOME low/moderate income household requirements—80% of metropolitan median income. Many of the HOW buyers are only able to purchase with direct buyer assistance in the form of a second mortgage provided by the City using HOME funds. A deferred second mortgage up to a maximum amount of \$14,999 is available to eligible-households, through this HOME funded program, on an as-needed basis. The recapture provision will be enforced through a second mortgage. The entire amount of the direct buyer assistance will be repaid from the net sales proceeds, if any, at the time of resale. All purchasers will be required to attend homebuyer counseling and housing maintenance seminars prior to closing. All completed projects meet the HOW program standards which exceed the minimum city code requirements.

Staff has been working with the non-profit developers to identify impediments in today's housing development market. It has been determined that the cost of securing construction financing in today's market is a major impediment to the development of these affordable units. Recognizing this, staff has identified available HOME funds within the existing program to provide interim construction financing to the non-profit organizations. The City funds will be awarded at a 2% origination fee which will be recycled back into the program to assist future projects, making the projects more economically feasible. These funds, less the amount necessary for the development gap (up to \$50,000) and a minimum of \$1,000 but not to exceed \$14,999 that is necessary for the buyer affordability second mortgage, would be repaid at the time the property is sold to an owner-occupant.

Staff recommends that the City Council 1) Approve modification to the Home Ownership Works Program allowing for the use of the program funds as a revolving loan fund for construction financing with a 2% loan origination fee which will be recycled back into the program to assist future projects, paid by the developer and 2) authorize the execution of loan and related agreements for this purpose with the CPED Director-approved non-profit developers.