



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

Date: April 4, 2006

To: Council Member Lisa Goodman, Community Development Committee

Subject: Home Ownership Works (HOW) Program guidelines

Recommendation: Approve the Home Ownership Works Program guidelines

Previous Directives:

On January 20, 2006, the 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 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.

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

Approved by: Chuck Lutz, Deputy Director CPED
Elizabeth Ryan, Directory of Housing
Policy & Development

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

Financial Impact (Check those that apply)

X No financial impact (If checked, go directly to Background/Supporting

Information).

- 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.
- Business Plan: Action is within the plan. Action requires a change to plan.
- Other financial impact (Explain):
- Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)

Neighborhood Notification: Not Applicable

City Goals: Not Applicable

Comprehensive Plan: Not Applicable

Zoning Code: Not Applicable

Other: Not Applicable

Background/Supporting Information

The Home Ownership Works program (HOW) is designed to address the goal of providing home ownership opportunities for residents who otherwise would have difficulty in attaining home ownership. It is also designed to address the problem of abandoned and foreclosed houses. The program also treats properties in need of demolition and new construction.

HOW properties are purchased and owned by the City of Minneapolis during the renovation/construction period. All completed projects meet the HOW program standards which exceed the minimum city code requirements. The scope of work and construction monitoring are completed by non-profit housing development construction managers. Private licensed general contractors are selected through a sealed bid process to complete the required renovation/repairs or new construction. Additionally, CPED's Construction Management Specialists assist in the preparation of the scope of services, ensure City program requirements are followed, monitor the construction draws and approve/deny change orders. Local funds are used to provide interim financing when necessary.

At the January 9, 2006 Community Development Committee meeting, staff was directed to determine if it was appropriate to do an amendment to the Real Property Disposition Policy to authorize staff to enter into purchase agreements and sale of properties to any buyer meeting the guidelines of the Home Ownership Works program once the rehabilitation is completed on a given project. The intent was to reduce the amount of processing time once an eligible buyer was identified. Since then, staff has worked with the City Attorney's office and it has been determined that an amendment to the Policy is not required, but that an amendment to the program guidelines would accomplish the goal. Therefore, staff is recommending approval of

the attached guidelines to the Home Ownership Works Program. These guidelines are a part of the Consolidated Plan. Below are highlights of the recommendations:

- Clarification of priority program buyers - Buyers must be first time homebuyers or buyers who are being displaced due to public action. Their annual gross income must meet the HOME low/moderate income household requirements. This is a change from: “Target buyers would be first time homebuyers or buyers who are being displaced due to public action. Their annual gross income must meet the HOME low/moderate income requirements.” This change clarifies that the program limits us to sell only to first time homebuyers or buyers who are being displaced due to public action and not just target to said population.
- Clarification of the process on how buyers are chosen if more than one qualified offer is received - If more than one offer is received from qualified buyers, first preference will be given to buyers who are being displaced due to public action. If there are equal offers after applying the preference described above, a lottery will be held. Previously this process was not defined in the guidelines.
- Modification of the process for disposition approval by City Council - Upon completion of the project, a report will be presented to the City Council authorizing the sale of the rehabilitated or newly constructed home that will identify the estimated market value of the property but will not identify the purchaser, unless one is already identified. Completed homes will only be sold to eligible buyers pursuant to the HOW program guidelines. Note that if the appraised value of the property needs to be adjusted after the Council action because of market conditions, such adjustment can only be made after approval from both the CPED Appraiser and the CPED Director. This is an addition, as there was no language in the previous guidelines that addressed this process. These changes are intended to shorten the time period for closing, thereby reducing City costs associated with on-going maintenance.

HOME Program-Specific Requirements (Excerpt from the Consolidated Plan)

Single Family HOME Program

HOME funds will be available for the renovation or new construction and sale of 10 to 20 vacant, single family dwellings, under the Home Ownership Works (HOW) program. HOME funds may be used for any of the following activities: acquisition, demolition, renovation/repairs or new construction.

Home Ownership Works (HOW)

Home Ownership Works (HOW) is designed to address the goal of providing home ownership opportunities for residents who otherwise would have difficulty in attaining home ownership. It is also designed to address the problem of abandoned and foreclosed houses. The program also will be used to treat properties in need of demolition and new construction. HOW properties will be owned by the City of Minneapolis during the renovation/construction period. All properties will meet the HOW Program Standards which exceed the minimum city code requirements. Scope of work, construction bidding and construction monitoring will be completed by non-profit housing development construction managers. Private licensed general contractors will be selected through a sealed bid process to complete the required renovation/repairs or new construction. Local funds will be used to provide interim financing. The interim financing will allow immediate fee ownership only. This approach serves the following public purpose objectives:

- 1) Provides home ownership opportunities and long-term, affordable and decent housing for residents who are otherwise unlikely to achieve home ownership. Affordability is defined as the maximum percentage of the purchaser's income that can be used to pay the fixed costs of owning a home, which is determined by the lender (that is, loan payments of principal and interest, taxes and insurance, the sum of which is called PITI in the lending industry).
- 2) Addresses the problem of vacant and deteriorated structures.
- 3) Helps the City maintain a base of owner occupants and provides housing opportunities to people who find that it is increasingly difficult to qualify for a home mortgage.

Funding for buyer assistance programs such as closing costs and down payments may be provided by CPED and other organizations.

Target Buyers

Buyers must be first time homebuyers or buyers who are being displaced due to public action. Their annual gross income must meet the HOME low/moderate income household requirements. They are residents who are either trying to purchase a home, but are having trouble qualifying for a mortgage or locating a decent home in their price range. Properties with 4-bedrooms will be sold to households of 3 or more and 5-bedroom structures will be sold to households of 4 or more who will occupy the property. All purchasers will be required to attend homebuyer-counseling and Housing Maintenance seminars prior to closing. If more than one offer is received from qualified buyers, first preference will be given to buyers who are being displaced due to public action. If there are equal offers after applying the preference described above, a lottery will be held.

Target Houses

It is anticipated that a large number of properties will be FHA foreclosures or REO properties in need of moderate to substantial rehabilitation. Moderate rehab properties selected would be single family or duplex homes. Duplexes will be converted to single family dwellings, where appropriate. The program will operate city wide.

Program Mechanics

Affordability

To ensure that the property will remain affordable to low-income homebuyers, staff will implement a resale provision. The resale price of any property will not exceed HUD Section 203 (b) limits, as of the date of closing. In accordance with HOME fund requirements, all properties will have a 15 year affordability term no matter what the level of HOME funding.

The proposed resale restriction meets federal requirements, ensuring the initial purchaser with a fair return on their initial investment plus principal reductions, post sale capital improvements and standard closing costs. These requirements would be spelled out in a promissory note and mortgage and filed against the property.

Buyer Financing

First Mortgage Lending

Under the Home Ownership Works program, eligible households may be able to apply for a mortgage loan through one of the city's participating lenders, where interest rates are typically below market rates for a 30-year mortgage. If needed, down payment and closing cost loans will be available through various lenders and non-profit organizations. Purchasers will need a minimum of a 1% down payment, plus an estimated 3% for closing costs and pre-pays.

City Subordinate Financing

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. As real estate values continue to rise, the use of these HOW second mortgages will continue and are needed to keep the properties affordable to low and moderate income households. A deferred second mortgage in a maximum amount of \$30,000 may be available to households who would otherwise be unable to purchase. The recapture provision will be enforced through a second mortgage. The second mortgage will be repaid from the net sales proceeds at the time of resale. Any repayments received upon sale will be placed into the Minneapolis HOME account for future production or as direct buyer assistance for affordability.

Non-profit Participation

Property selection, buyer outreach, marketing, rehabilitation, construction and counseling will be labor intensive. These are also normal functions of developers. However, since the properties will be owned by the city during the development process, another arrangement is necessary. For these reasons, the HOW program will contract with the local non-profit community to perform construction management services and may participate in the marketing of the units. Buyer counseling will also be provided by the local non-profit community.

Property Selection and Purchase

Due to HUD requirements, a decision to acquire a HUD property and agree on a price would need to occur within 5 days of the time that the property became available. The city will notify the appropriate neighborhood group of its intention to acquire and either rehabilitate the existing structure or demolish and construct a new home which will be sold to an owner occupant in accordance with the program requirements.

Citizen Participation

Neighborhood groups will review this proposal for the required 45-day contractual period before proceeding to the Council for final approval. Neighborhood groups will be notified regarding the properties to be included in the program before they are acquired.

Council Approval

Properties will be sold to eligible buyers for fair market value after a noticed public hearing pursuant to state statutory requirements. Upon completion of the project, a report will be presented to the City Council authorizing the sale of the rehabilitated or newly constructed home and will identify the estimated market value of the property but will not identify the purchaser. This is suggested to shorten the time period for closing, thereby reducing costs associated with on-going maintenance. Properties will only be sold to eligible buyers pursuant to the HOW program guidelines. The Council, in its discretion, may approve, reject, or modify the terms of the proposed sale. The fair market value will be finalized upon completion of the home and an appraisal as approved by the CPED Appraiser and approved by the CPED Director.

Rehabilitation

Rehabilitation standards would include the housing maintenance standards, HOW renovation Standards, energy efficiency, lead abatement and ease of maintenance and long term maintenance issues. While the homes would be rehabilitated to be an asset to the neighborhood and to avoid high maintenance costs, some economies would be made to avoid excessive rehab costs. For example, newer roofs, furnaces, water heaters, etc., which are functioning properly and with an expected 7 to 10 year usable life expectancy, would not be replaced. The general rule would be to ensure that the owner does not experience major replacement costs during the first seven years of ownership, and that the home would be eligible for FHA financing.

New Construction

Due to the increased costs of acquiring and renovating sub-standard housing, staff will begin the use of new construction in the HOW Program. Provided homeowners do the required general and annual maintenance, these newly constructed homes should assure first time homeowners minimal mechanical and structural problems for over twenty years. Homeowner occupancy requirements for new construction will be 15 years. Any sale or transfer of the property from its original owner will require a sharing of the net sales proceeds. As specified within the Home Funded Mortgage, net proceeds means any and all consideration of any kind, whether direct or indirect, that is received by the borrower in connection with the sale or transfer. The proceeds are adjusted by deducting the Borrower's Capital Investment. A percentage of the net proceeds will be repaid dependent on the year in which the transfer occurs. Any repayments received upon sale will be placed into the Minneapolis HOME account for future production or as buyer affordability assistance.

Marketing

HOW properties will be marketed and advertised after renovation/construction through newspapers and MLS. Marketing will be established on a pay per performance basis and will be performed by realtors active in and familiar with the Minneapolis market. The sales price will be determined by a fair market value appraisal or HUD Section 203 (b) limit, whichever is less based on the completed project.