

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

Date: April 14, 2009

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

Subject: Approval to extend the contract with the Minnesota Home Ownership Center to provide homeownership and foreclosure prevention counseling services

**Recommendation:**

Approve the following:

1. An exception the procurement policy to allow the City to extend the contract with the Minnesota Home Ownership Center without following an RFP process;
2. Entering into a contract with the Minnesota Home Ownership Center for:
  - a) homeownership counseling (\$125,000),
  - b) foreclosure prevention counseling (\$385,600), and
  - c) a foreclosure prevention loan fund (\$50,000)
3. Authorize the extension of the contract together with the carryforward of any remaining funds covered under the 2008 contract.

**Previous Directives:** The City has had an annual contract with the Home Ownership Center (HOC) for home ownership counseling services since 1992. It has also provided funding for foreclosure prevention through HOC since 1999.

Prepared by: Mark Anderson, Senior Contract Management Specialist
Approved by: Tom Streitz, Director of Housing Policy and Development _____
Charles T. Lutz, Deputy CPED Director _____
Presenters in Committee: Mark Anderson

**Financial Impact**

Action is within the Business Plan

**Supporting Information**

In 1992 the Cities of Minneapolis and Saint Paul joined together with the Family Housing Fund and area banks and mortgage companies to create the Minnesota Home Ownership Center (HOC). The purpose of HOC was to create a unified approach to providing home ownership counseling services that would not only serve local government housing programs, but also programs offered by area banks and mortgage companies.

### General operating and pre-purchase counseling

From 1992 through 2006, Minneapolis' annual contribution to the general operating fund of the HOC was \$50,000. In 2007 this funding was increased to \$100,000. At the request of the HOC director, staff recommends that this funding be increased to \$125,000 to place greater emphasis on education and training of homebuyers before they close on their home purchase. They are expanding their educational outreach to include the NSP programs and counseling potential buyers about the dangers surrounding the use of a contract for deed as a home purchase vehicle.

The goal of the home ownership counseling services has been to provide more opportunities to area residents to realize the dream of home ownership. It was important that lenders not only help them to purchase a home, but also make sure that their ownership was successful over time. This goal has largely been achieved for those receiving this counseling. As an example of the value of the pre-purchase counseling, borrowers using the *CityLiving* home program who have received this counseling have default and foreclosure rates that are approximately half of the national average.

In 2008, 983 homeowners living in Minneapolis completed a Home Stretch workshop which is an increase of 477 over the prior year. In addition, 202 homeowners participated in pre-purchase personal counseling services which is an increase of 37 over the prior year.

Seeing the success of the pre-purchase home ownership counseling, the Cities examined the possibility of providing services that would address post-purchase foreclosure prevention for homeowners who were experiencing a financial crisis. The Foreclosure Prevention Program was created from that effort.

### Foreclosure Prevention Counseling

In addition to providing home ownership counseling services, the HOC is the central organization that coordinates foreclosure prevention counseling services on behalf of Minneapolis, Saint Paul, and the State funded services throughout greater Minnesota. The foreclosure prevention counseling services are provided through HOC's partners which in the recent past for Minneapolis has been Habitat for Humanity. HOC is planning to expand these resources further to include PRG, Inc. for counseling of African immigrants, NeDA for counseling of Spanish speaking groups, and NHS of Minneapolis for counseling of Hmong immigrants. HOC monitors the services that are provided and works with the partners on the development and application of the curriculum used during the counseling sessions.

In 2006, in addition to its annual contribution of \$250,000, the City provided an additional \$100,000 to help the counseling agencies address a surge in the demand for these services and the related costs. In 2007, Minneapolis increased that total contribution from \$350,000 to \$400,000 and again in 2008 to \$420,000. Because of the continued high level of foreclosure activity and the ongoing demand for foreclosure

prevention services the staff recommends that we continue to provide a high level of support, however, budget constraints have limited the resources available for this service. As a result, the budget is being lowered \$385,600.

In 2008, Minneapolis had 1,175 clients who participated in foreclosure prevention counseling. The household breakdown is as follows:

Area Median Income Range	#	Percent of Households
0-50%	719	61%
51-80%	314	27%
81-100%	72	6%
Over 100%	70	6%

### Foreclosure Prevention Loans

Staff is also recommending that the City once again provide funds for loan, but to lower the amount to \$50,000 which will be used to finance loans to help bring the mortgagors current on their mortgage payments. This would match the amount Minneapolis gave for this purpose in 2007 and 2008. Several factors are considered before a loan is offered by the counseling agency.

- The homeowner must have overcome the circumstances that caused them to go into foreclosure such as the loss of a job, a medical emergency, or some other crisis event.
- The mortgagors must have obtained all the funds they possibly can from other sources such as a neighborhood group, foundations, the County, and family members. This would also include possible financial concessions from the mortgagor's lending institution.
- The homeowners must have successfully completed financial counseling. This will typically mean they understand the process of household budgeting and the need to make their payments in a timely manner.
- They must have sufficient stable income coming into the household so that the monthly payments are determined to be affordable.

These loans are provided at zero percent interest. They are fully repayable. They require no monthly payment, but are instead due when the borrower no longer owns the home or when they cease to occupy it as their principal place of residence. Loan repayments are recycled back into the loan pool to allow the counseling agencies to fund future loans. This will hopefully also allow the City to eventually reduce its contribution for this purpose.

The funds for the HOC's administrative costs, the foreclosure prevention services, and the loan have already been appropriated in the 2009 budget process.

Finally, under the HOC's 2008 contract extension HOC received a total of \$611,000. Of this amount, \$253,014 remains unspent. The reason for these remaining funds is that in 2008 HOC's network of service providers received substantial one time federal National Foreclosure Mitigation Counseling funds that were unexpected at the time of the City's initial commitment of its \$611,000. The federal funds had a very short timeline for expenditure so their use was prioritized with the hopeful expectation that the City would allow the HOC to carry its funding forward for use in 2009.

Staff has requested from the HOC a plan for using all of the past funds and the use of any future funds. As previously outlined in this report, their plan includes expansion of their services to the Hmong, Spanish speaking, and African communities. These additional dollars will help them accomplish that goal. In addition, because of the carryforward money, they have requested that we reduce the dollars allocated to foreclosure prevention loans as outlined above.