

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

**Date:** June 16, 2009 (REVISED)

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

**Subject:** Construction financing for the Neighborhood Stabilization Program's Foreclosure Recovery and Rehabilitation Program.

**Recommendation:** CPED recommends that the City Council 1) approve using \$1.5 million from the Affordable Ownership Housing Program (AOHP) as a revolving loan fund for construction financing at 0% interest for the Neighborhood Stabilization Program's Foreclosure Recovery and Rehabilitation Program and 2) authorize the execution of loan and related agreements for this purpose.

**Previous Directives:** None

### **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 – A SAFE PLACE TO CALL HOME – 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.
- Comprehensive Plan – Not applicable
- Zoning Code – Not applicable
- Other – Not applicable

### **Supporting Information**

On March 27, 2009, the Community Development Committee approved development gap funding to 9 non-profit developers to work in collaboration with the City to purchase and rehabilitate foreclosed or abandoned homes in accordance with the Neighborhood Stabilization Program (NSP). Since that time, staff has been working with the non-profit developers to overcome any impediments to implement the program. It has been determined, with the challenges that exist in today's market, that securing construction financing is the major impediment to proceeding with the purchase and rehabilitation of these distressed residential properties. Recognizing the limited timeframe for the commitment of the NSP funds (September 2010), staff believe it is paramount to find a solution to address this barrier. In an attempt to address this issue, staff commenced discussions with some of our local partners—Local Initiative Support Corporation (LISC), Fannie Mae and the Family Housing Fund to identify a workable solution.

Currently, foundations and private lenders are willing to provide construction financing of approximately 70% of the total development cost of each project, leaving the remaining 30% unfunded. Staff has identified \$1.5 million from uncommitted AOHP funding to provide interim construction financing to the non-profit organizations receiving NSP funds. The sources of these uncommitted AOHP funds are: \$500,000 in the 2007 allocation from fund SHP; \$500,000 from the 2008 allocation of Community Development Block Grant program income; and \$200,000 in 2009 allocation of Urban Development Action Grant funds and \$300,000 in 2009 from Legacy funds. It is being proposed that the \$1.5 million be used as a revolving loan to cover the remaining gap of up to 30% of total development costs. These funds would be repaid at the time the property is sold to an owner-occupant or when take-out financing is secured for the rental projects.

The non-profit developers have indicated that having our funds be the first commitment into the project would reduce the interest paid, thereby reducing the total project cost. Also having our funds be the last funds repaid, will reduce the risk to the other lenders, encourage involvement of private lenders and potentially increase their funding to 80% of total development cost.

Since its inception approximately \$8.1 million has been allocated to AOHP and \$6.2 million of those funds have been committed to 21 projects. Several of those projects, for which funds have been committed, have encountered impediments preventing them from proceeding as planned. It is anticipated that once these funds are no longer needed for the NSP program they will again be made available through AOHP.

The construction lending that has been identified carries an interest rate ranging from 5-7%. Providing the City funds at a 0% interest rate will result in a blended interest rate of 3.5%-4.9%, making the projects more economically feasible.

Staff recommends that the City Council approves the use of \$1.5 million from the AOHP program as a revolving loan fund for construction financing at 0% interest for the Neighborhood Stabilization Program's Foreclosure Recovery and Rehabilitation Program and authorize the execution of loan and related agreements for this purpose.