

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

Date: October 28, 2008

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

Subject: Receive and file report on *Minneapolis Advantage* demonstration phase

Recommendation: Receive and file this report

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).

Prepared by Mark S. 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

X Action is within the Business Plan

Community Impact

Neighborhood Notification: 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 often results in vacant and boarded housing. When houses become vacant, and particularly when they are boarded, this has a crippling effect upon the sales of homes on that block and in the surrounding neighborhood.

In April of this year the City Council approved a demonstration program called Minneapolis Advantage Program to provide \$10,000 deferred loans to buyers of houses in neighborhoods heavily impacted by foreclosures. The program was funded by \$500,000 which provides 50 loans and these loans are forgiven over a five year period of time at 20% forgiveness per year.

As part of its approval the Council required staff to return with a report to summarize various outcomes of the program.

Working closely with the neighborhoods staff prepared guidelines for the Council's approval and the key components of these guidelines included:

- Every homebuyer who can qualify for a traditional fixed-rate first mortgage loan will receive a \$10,000 loan that is forgivable over five years. If the borrower is also completing repairs to the home as part of the mortgage, upon completion of the work, up to \$10,000 of the loan may be forgiven to cover any gap between the value of the property and the total cost of purchase price plus the cost of the home repairs and improvements.
- The loan may go toward the payment of closing costs, down payment, and any renovation costs.
- The homebuyers must receive pre-purchase home ownership counseling through an approved counseling agency.
- The house needed to be on a block with at least one foreclosure.

The five year forgiveness schedule tied to this loan is offered to encourage a longer term, more stable owner occupancy of the home. Five years is the amount of time considered by the real estate community as the average length of time people own a home before moving on to their next home during the earlier years of home ownership.

One important outcome of the program is that all 50 loans were fully committed within the program's first 30 days. Since that time there has only been a couple of loans that were cancelled prior to their closing, but with the heavy demand, additional buyers were held on a waiting list.

At the time of the preparation of this report, 45 of the loans have closed. The following statistics summarize some of the outcomes from the first 45 closings.

Property Details

- Properties were only required to be on the block with a foreclosed home, but of the 45 closed so far 62% of the properties were foreclosed and 9% were vacant and boarded.
- Sixty-two percent of properties were previously non-homestead prior to being purchased through this program and this program will change those properties to homestead status.
- The program had a mix of purchase prices, but more than 50% of the buyers bought homes under \$100,000 and 82% purchased homes under \$150,000.
- While only half of the eligible neighborhoods were in North Minneapolis, eighty percent of the homes purchased were located in North Minneapolis.

Buyer Details

- Even though there were no income restrictions 76% of buyers were at 80% MMI or less. With home prices so low, this program made home buying even more affordable.
- The majority of buyers were younger, with 57% being younger than 36 years old.
- 78% of participants were first-time homeowners.
- The 45 households were made up of 63 adults and 21 children. Eight of the households had children so the majority of buyers were either single or younger married couples.
- Of the 63 adults who participated as an applicant or co-applicant in the program, 65% were White (not Hispanic), 13% African-American, 19% Asian, and 3% two or more races. By way of comparison, according to the 2007 American Community Survey, the racial breakdown of the city of Minneapolis is 64% White (not Hispanic), 17% African-American, 9% Hispanic or Latino (of any race), 5% Asian, 4% two or more races, and 3% Some other race. (The MAP buyer profiles are similar to the overall composition of the city of Minneapolis, but greater outreach to the Hispanic and Native-American communities is necessary for phase II.)
- Nearly 30% of the households participating in the program moved from the suburbs or St. Paul and of those, 95% moved to the eligible North Minneapolis neighborhoods.

These statistics demonstrate that the program has been effective in encouraging the public to buy in the communities stressed by foreclosures.

To be able to continue the Minneapolis Advantage Program for another phase, CPED has applied to the Federal Home Loan Bank with the hope of obtaining additional funding. CPED does not expect to hear about an approval until January 2009. If the application for this funding is approved staff will be submitting a report for the Council's approval outlining a revised program that will reflect the Federal Home Loan Bank's program requirements and will also reflect what has been learned from the outcomes and program performance under this demonstration phase.