

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

Date: June 16, 2009
To: Council Member Lisa Goodman, Chair, Community Development Committee
Council Member Paul Ostrow, Chair, Ways & Means/Budget Committee
Subject: Approval of a loan to Greater Metropolitan Housing Corporation

Recommendation: Approve the following:

- \$750,000 zero percent loan to Greater Metropolitan Housing Corporation to be used as a line of credit for loans they originate on behalf of the City.
- Amend the 2009 General Appropriation Resolution by increasing the Community Planning & Economic Development agency Fund 01SRF – Residential Finance (01SRF-8900220) by \$750,000 from the available fund balance.

Previous Directives: In 2007 the City entered into a lending contract with Greater Metropolitan Housing Corporation for them to originate mortgage assistance and home improvement loans on behalf of the City.

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 _____ Presenter in Committee: Mark Anderson
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Financial Impact

X Action requires an appropriation increase to the Capital Budget _____ or Operating Budget X

Community Impact

Neighborhood Notification: Not required

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

The City of Minneapolis has historically provided home improvement and homebuyer financial assistance to Minneapolis borrowers. These programs have been originated through a lending contract with Greater Metropolitan Housing Corporation (GMHC). Along with these programs GMHC provides other financial and development assistance as a part of the City's various development activities.

Under the terms of our lending contract, GMHC is required to originate loans and then request reimbursement for those loans from the City. Unfortunately, all of their lending and development activities along with the difficult economy have begun to place financial stress on GMHC that has caused them to reach their liquidity limits. GMHC simply does not have the available cash to be able to continue to front the funds for the mortgage assistance and home improvement loans they originate and then retain the loans until they can be reimbursed. As a

solution to this situation, GMHC requested that the City give them all the funds to be originated on the front end, however the terms of the present contract do not allow the City to do so. In addition, this does not follow the City's normal reimbursement policy for its vendor and service contracts.

One possible solution is for GMHC to seek a line of credit from a bank, however current lending rates have ranged anywhere from 5% to 8% depending upon many considerations of the bank. This interest charge just places even greater financial stress on GMHC who would then have to increase its charges to the City to cover the extra costs.

As an alternative, GMHC has proposed that the City provide them with a zero percent loan which they would then use like a line of credit to fund loans until the loans are reimbursed from the City. Staff feels that this is the most reasonable and cost effective solution that will allow GMHC to continue to fulfill the terms of the lending contract. The loan would work is as follows:

- The City closes on a \$750,000 – 0% loan to GMHC.
- GMHC opens a separate interest bearing "Loan Account" at a bank and deposits the \$750,000 into that account.
- GMHC temporarily draws funds from the Loan Account to cover the cost of the mortgage assistance and home improvement loans they originate as they are closed.
- The City then funds the closed loans out of the regular funds the City has designated for those loan programs and those funds go back into the Loan Account to be available for the future loan closings.

GMHC would be required to supply copies of the monthly statements for the Loan Account so staff can maintain oversight of the use and repayment of funds, along with monitoring the amount of the accrued interest. The principal and all interest earnings on the Loan Account is repaid to the City at the end of the term of the loan agreement.

Staff is recommending that the term of the agreement run for three years which should cover the remaining term of their current lending agreement and the loan programs they are originating at the present time.