

Minneapolis Community Development Agency

## Request for City Council Action

Date: June 24, 2003

To: Council Member Lisa Goodman, Community Development Committee

Forward to: MCDA Board of Commissioners

Prepared by Cynthia Lee, Manager, Multi-Family Housing Division, Phone 673-5266

Approved by Lee Sheehy, MCDA Executive Director  
Chuck Lutz, MCDA Deputy Executive Director \_\_\_\_\_

**SUBJECT: Informational Report re: Update on Proposed Second Mortgage Terms for Affordable Multifamily Ownership Housing Units**

**Previous Directives:** On November 8, 2002, the City Council and MCDA Board approved second mortgage terms for affordable multifamily housing units.

**Ward: City-wide**

**Neighborhood Group Notification:** Not applicable.

**Consistency with *Building a City That Works*:** Consistent with Goal 2, objective H, "Ensure that an array of housing choices exists to meet the needs of our current residents and attract new residents to the city; increase homeownership."

**Comprehensive Plan Compliance:** Complies.

**Zoning Code Compliance:** Not applicable.

**Impact on MCDA Budget:** No impact.

**Living Wage / Business Subsidy:** Not applicable.

**Job Linkage:** Not applicable.

**Affirmative Action Compliance:** Not applicable.

**Recommendation: None. Informational report.**

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Under the city's Affordable Housing Policy, ownership housing projects of 10 or more units must create a financing mechanism to make at least 20% of those units affordable at <50% of median income. A second mortgage strategy has been created for the affordability assistance for those units and other affordable multifamily ownership units.

Pursuant to this strategy, second mortgages are structured as deferred loans with 3% simple interest and a 40 year term. The loan is assumable only if the new purchaser is a qualified low-income buyer and owner occupant, in which case the accrued interest is forgiven.

This approach provides for long-term affordability by creating an incentive to sell to a new low-income buyer. If the unit does not sell to a low-income buyer, the lender recaptures the subsidy (plus interest) to apply to another affordable housing unit elsewhere. It also allows owners access to the same level of appreciation as any other owner. The 40 year term is structured to prevent the balloon payment hitting at the same time as the end of the first mortgage term. The loans are non-recourse so that repayment occurs only to the extent there are proceeds. The loans will be subordinate to first mortgage debt but not necessarily other soft debt, subject to individual circumstances. If the buyer later refinances the first mortgage, the subordination request would be subject to the existing MCDA subordination policy and procedure.

At this time, the second mortgage strategy is being implemented for the East River Mews/Unocal project and Lofts on Arts Avenue. It is also anticipated that it will be applied to second mortgages for the Grain Belt, Urban Village, Heritage Park and Humboldt Greenway Phase 2 projects. The Greater Minneapolis Housing Corporation (GMHC) will originate and service these loans under contract to the MCDA.

The proposed interest rate of 3% is being reevaluated in light of current mortgage interest rates. In order to reflect an appropriate differential compared to anticipated first mortgage interest rates, it is likely that second mortgages will be structured with 2% simple interest at this time.

In addition to the second mortgage strategy, staff are working on a new long-term affordability strategy for multifamily ownership housing. A new program for gap financing for limited equity (ownership) cooperative development is being considered at this time. The funds would be available for projects such as the following:

- Nicollet Island Coop, currently a leasehold coop but converting to a limited equity coop as a result of expiring tax credits. Funds would be used for rehabilitation and preservation. The project would remain affordable at similar levels.
- Affordable and mixed income family housing such as that being developed at 44th and Nicollet by North Country Coop.
- Affordable and mixed income senior housing such as that being developed by RealLife.

FHA indicates they are very interested in working with us to finance more limited equity coops. There is, however, a need for some public gap financing for these types of projects. Few sources currently exist.

Eligible projects would include preservation and production projects containing 10+ units and conforming to the city's affordable housing policy. Program guidelines and criteria will be forwarded to the Council/Board in the next several months.

This report was prepared by Cynthia Lee. For more information, call 612-673-5266.