City of Minneapolis
Request for Committee Action

To:	Ways & Means
Date:	7/18/2016
From:	Finance & Property Services
Lead Staff:	Mark S. Anderson, Senior Contract Management Specialist
Presented by:	Mark S. Anderson
File Type:	Action
Subcategory:	Policy Position

Subject:
City of Minneapolis Loan Asset Policy changes

Description:
Approving changes to the Loan Asset Policy, permitting the City to subordinate its loan(s) to a reverse mortgage and to clarify other language in the policy.

Previous Actions:
On February 25, 2005 the City Council approved the existing Loan Asset Policy.

Ward/Address:
All Wards

Background/Analysis:
On Feb. 25, 2005, the City Council approved a policy relating to the management of the City's loan assets. That policy includes direction to staff to allow the City's residential loan assets to be subordinated to new first mortgage financing when a homeowner seeks to refinance or accept a new mortgage against their home.

The current policy limits the amount of money a borrower can take out against their property so that if they are taking cash out the total amount of debt, including the City's mortgage, cannot exceed 80% value of the home. If the homeowner is taking cash out to complete repairs and improvements to their home the total amount of debt cannot exceed 100% of the value of the home.

Staff has been contacted periodically to seek approval to subordinate the City's mortgage behind a loan that is identified as a reverse mortgage. Briefly, a reverse mortgage functions in reverse of a regular mortgage because the borrower is not making monthly payments and the accrued interest is added to the loan balance each month, thereby increasing the amount of debt. What this means is that today the total debt may meet the City's policy guidelines, but as time passes, the loan may, and most likely will, exceed the policy guidelines.

Homeowners seeking this type of financing must be 55 years of age or older. They are typically obtaining a reverse mortgage to allow them to obtain money to complete repairs and improvements to their home or to free up money in their budget each month so that they can continue to afford to stay in their home. The lender accepts the risk with the idea that the home will increase in value over time. More importantly for the lender, these loans are normally insured against loss by the Federal Housing Administration.

The risk to the City is that the value of the property does not increase sufficiently to cover all the debt on the property, and the City's mortgage loan may not be fully repaid when the home is sold. The benefit to the City is that subordinating the City's loan behind a reverse mortgage will allow an older Minneapolis homeowner to stay in their property instead of forcing them to sell and move into a different home that could very well be more expensive.

Attachment A to this report is a copy of the section of the Loan Asset Policy that relates to the City's Residential Loan Subordination Policy. The proposed changes have been bolded and underlined.

Financial Review:

No financial impact.

While here is no immediate financial impact, a reverse mortgage increases the amount of debt ahead of the City's debt and may do so to a point where there is little or no equity remaining in the property which may reduce the City's ability to be repaid for the amount of its loan.

Attachments

Attachment A – Residential Loan Subordination Policy