

**The FY 2009
Minneapolis**

HUD CONSOLIDATED PLAN
for Housing and Community Development

**Amendment #1: Homeownership Works
(HOW) program revision**

Public Comment Period November 2 – December 1, 2009

**Submitted to HUD
December 4, 2009**



**Minneapolis City Council Public Hearing on
Amendment #1 of the
2009 Consolidated Plan**

Tuesday, November 17, 2009 at 1:30 p.m. in City Council Chambers, 350 South Fifth Street before the Community Development Committee

Purpose: To receive comments on the City's Proposed amendment #1 to the 2009 Consolidated Plan for CDBG, HOME, ADDI, ESG, and HOPWA federal entitlement funding.

Dear Interested Individual/Agency:

You are invited to comment on Minneapolis' proposed Amendment #1 to the FY 2009 Consolidated Plan. The 2009 Consolidated Plan covers the City's Community Development Block Grant (CDBG), HOME Investment Partnerships Program (HOME), American Dream Downpayment Initiative (ADDI), Emergency Shelter Grant Program (ESG), and the Housing Opportunities for Persons with AIDS (HOPWA) federal entitlement funding and updates the 2005-09 Consolidated Plan Five Year Strategy.

Summary: Proposed Amendment #1 to 2009 Consolidated Plan: The City proposes to amend the 2009 HOME Single Family program to modify the guidelines for the Homeownership Works (HOW) program. It will be modified to enable the City to provide development gap financing (the difference between total development cost and sales price) to non-profit developers. Under the existing program properties are owned and developed by the City of Minneapolis. Currently in the HOW program, non-profits are involved in bidding, construction management and marketing of the properties. By changing the program to provide development gap subsidy to the non-profit developers, the City can reduce its development costs. This proposed change increases the potential homeownership opportunities which can be developed through this program. Public comment period runs November 2 - December 1, 2009.

If you wish to review proposed Amendment #1 2009 Consolidated Plan in its entirety, or review the 2005-2009 Consolidated Plan Five Year Strategy, it is

available for review at the Office of Grants & Special Projects (307M City Hall), at all Minneapolis public libraries, offices of Legal Aid Society, and on the web at www.ci.minneapolis.mn.us/grants.

We invite your participation by speaking at the hearing, and submitting written comments before, during, or after the hearing. To have your name placed on the Public Hearing Speakers List, call (612) 673-2219. Please indicate if you will require any accessibility assistance or interpreter/translation services.

If you are unable to attend this public hearing, you may send comments to Matt Bower, Office of Grants and Special Projects, 307M City Hall, 350 South Fifth Street, Minneapolis, MN 55415; fax: (612) 673-3724; phone: (612) 673-2188; email: matthew.bower@ci.minneapolis.mn.us. **The public comment period on the 2009 Consolidated Plan will run from November 2 – December 1, 2009.** If you wish to request a copy of Amendment #1 of the Consolidated Plan, or if you have any questions on the Consolidated Plan, please contact Matt Bower at (612) 673-2188.

Upon request, information regarding the Consolidated Plan can be provided in alternative formats. Please call (612) 673-2032 (voice) or TTY (612) 673-2626 to request assistance.

Attention: If you want help translating this information, call – **Hmong** – Ceeb toom. Yog koj xav tau kev pab txhais cov xov no rau koj dawb, hu 612-673-2800; **Spanish** – Atención. Si desea recibir asistencia gratuita para traducir esta información, llama 612-673-2700; **Somali** – Ogow. Haddii aad dooneyso in lagaa kaalmeeyo tarjamadda macluumaadkani oo lacag la' an wac 612-673-3500.

Proposed Amended Section:

3. 2009 HOME Single Family program

HOME funds will be available for the renovation or new construction and sale of single-family dwellings, under the Home Ownership Works (HOW) program. HOME funds may be used for any of the following activities: acquisition, demolition, renovation/repairs or new construction.

Home Ownership Works (HOW)

Home Ownership Works (HOW) is designed to address the goal of providing home ownership opportunities for households who otherwise would have difficulty in attaining home ownership. It is also designed to address the problem of abandoned and foreclosed houses through either rehabilitation or demolition and new construction. The Program serves the following objectives:

- 1) Provides decent, long term affordable home ownership opportunities for households who would normally experience challenges in achieving home ownership.
- 2) Addresses the problem of vacant and deteriorated structures
- 3) Helps the City maintain a base of owner occupants and provides housing opportunities to households who find that it is increasingly difficult to qualify for a mortgage.
- 4) Helps combat the impacts of the foreclosure crisis

Properties will be treated by the HOW Program through one of the following methods:

- ◆ Properties will be owned by the City of Minneapolis during the renovation/construction period. All properties will meet the HOW Program Standards which exceed the minimum City code requirements. Non-profit housing development construction managers will complete scope of work, and construction monitoring. Private licensed general contractors will be selected through a sealed bid process conducted by the City to complete the required renovation/repairs or new construction. Non-HOME funds will be used to provide interim financing when possible.
- ◆ Non-profit developers will identify properties to acquire and develop under the HOW program. They will provide the City with a scope of work and proforma to either rehabilitate the home or construct a new home on the site. All properties will meet the HOW Program Standards which exceed the minimum City code requirements. City staff will inspect the property, review the scope and the pro forma and make a determination on program

eligibility and the estimated amount of subsidy necessary to complete the project. City will provide a per unit subsidy, not to exceed \$50,000, to the developer. City staff will monitor construction on all approved projects.

Funding for buyer assistance programs such as closing costs and down payments may be provided by CPED and other organizations.

Target Buyers

Buyers must meet HOME low/moderate income household requirements. They are residents who are either trying to purchase a home, but are having trouble qualifying for a mortgage or locating a decent home in their price range. Properties with four or more bedrooms will be sold to households of three or more people who will occupy the property. All purchasers will be required to attend homebuyer counseling and Housing Maintenance seminars prior to closing. If more than one offer is received from qualified buyers, preference will be given to first-time homebuyers or buyers who are being displaced due to public action. If there are equal offers after applying the preference described above, a lottery will be held.

Target Houses

It is anticipated that a large number of properties will be FHA foreclosures or REO properties in need of moderate to substantial rehabilitation. Moderate rehab properties selected would be single family or duplex homes. Duplexes will be converted to single-family dwellings, where appropriate. The program will operate Citywide.

Program Mechanics

Affordability

To ensure that the property will remain affordable to low-income homebuyers, staff will implement a resale provision. The resale of any eligible property will not exceed 95 percent of the area median purchase price or after-rehabilitation price for single family housing, as determined by the HUD Secretary. The City will comply with HUD's minimum affordability term.

The proposed resale restriction will comply with federal requirements, ensuring the initial purchaser with a fair return on their initial investment. A fair return is defined as the return of the homebuyer's initial investment plus principal reductions, post sale capital improvements and standard closing costs. These requirements would be spelled out in a promissory note and mortgage and filed against the property.

Buyer Financing

First Mortgage Lending

Under the Home Ownership Works program, eligible households may be able to apply for a mortgage loan through one of the City's participating lenders, where interest rates are typically below market rates for a 30-year mortgage. If needed, down payment and closing cost loans will be available through various lenders and non-profit organizations. Purchasers will need a minimum of a 1% down payment, plus an estimated 3% for closing costs and pre-pays.

City Subordinate Financing

Many of the Home Ownership Works buyers are only able to purchase with direct buyer assistance in the form of a second mortgage provided by the City using HOME funds. The use of these HOW second mortgages will continue and are needed to keep the properties affordable to low and moderate-income households. A deferred second mortgage up to a maximum amount of \$14,999 may be available to households, through this HOME funded program, on an as-needed basis. The recapture provision will be enforced through a second mortgage. The second mortgage will be repaid from the net sales proceeds, if any, at the time of resale. The net proceeds are the sales price minus superior loan repayment (other than HOME funds) and any closing costs. Any repayments received upon sale will be placed into the Minneapolis HOME account for future production or as direct buyer assistance for affordability.

Non-profit Participation

Property selection, buyer outreach, marketing, rehabilitation, construction and counseling will be performed by the developer or their agent. However, in instances where the properties will be owned by City during the development process, the City will contract with a local non-profit entity to perform construction management services and marketing. The non-profit entity will also be required to provide homebuyer counseling.

Property Selection and Purchase

The City and/or a Developer will identify a property for inclusion in the HOW Program. Once a property is identified, the City will review the estimated proforma and, when appropriate, authorize the purchase of the property and the use of HOME funds for the development.

Citizen Participation

The City will follow the approved process for neighborhood notification for all properties acquired and disposed by the City through this program.

Council Approval

The City Council has approved the HOW Program Guidelines which mirror the Consolidated Plan language.

Rehabilitation

Rehabilitation standards would include the housing maintenance standards, HOW Renovation Standards, energy efficiency, lead abatement, and ease of maintenance and long term maintenance issues. While the homes will be rehabilitated to be an asset to the neighborhood and to avoid high maintenance costs, some economies will be made to avoid excessive rehabilitation costs. For example, newer roofs, furnaces, water heaters, etc., which are functioning properly and with an expected 7 to 10 year usable life expectancy, may not be replaced. The general rule will be to ensure that the owner does not experience major replacement costs for a minimum of the first seven years of ownership, and that the home will be eligible for FHA financing.

New Construction

Due to the increased costs of acquiring and renovating sub-standard housing, new construction is allowed in the HOW Program. Provided homeowners do the required general and annual maintenance, these newly constructed homes should assure homeowners minimal mechanical and structural problems for over twenty years. Homeowner occupancy requirements for new construction will be 20 years. Any sale or transfer of the property from its original owner within the affordability period must be to a household at or below 80% of AMI or a sharing of the net sales proceeds will be required. Any repayments received will be placed into the Minneapolis HOME account for future production or as buyer affordability assistance.

Marketing

HOW properties will be marketed and advertised after renovation/construction through newspapers and MLS. Marketing will be established on a pay per performance basis and will be performed by realtors' active in and familiar with the Minneapolis market. The marketing for resale of any eligible property will be affordable to households at or below 80% of AMI and will not exceed 95 percent of the area median purchase price or after-rehabilitation price for single family housing, as determined by the HUD Secretary.