

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

Date: March 25, 2008

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

Subject: Approval of a new *Minneapolis Advantage* demonstration loan program

Recommendation: Hold a public hearing and approve the guidelines for the *Minneapolis Advantage* demonstration loan program; authorize the CPED Director to approve any changes to designated impacted neighborhoods.

Previous Directives: The 2008 budget included \$500,000 from fund 01SPH (the Legacy fund) to provide resources for this program.

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: Tom Streitz
--

Financial Impact

 X Action is within the Business Plan

Community Impact

Neighborhood Notification: This program has been developed in cooperation with the Come Home to Camden Housing Coalition (CHC), the Folwell, McKinley, and Webber-Camden neighborhoods in the Camden Community. This has been released for 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.

The Mayor asked the CPED Director to identify the specific needs within neighborhoods that have experienced high rates of foreclosure and to design a program that will provide the necessary resources for potential homebuyers to afford to purchase homes in these neighborhoods and make them their primary place of residence.

Staff contacted neighborhood representatives who work with the Northside Home Fund to discuss possible solutions. Out of those discussions has come this staff recommendation for a new program called the *Minneapolis Advantage* home loan

program. The guidelines for this program are attached for the Council's review and approval, and the key components of these guidelines include:

- 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 City currently provides funding to the Minnesota Home Ownership Center to support pre-purchase counseling through their Minneapolis partners which are the Powderhorn Residents Group and Neighborhood Housing Services of Minneapolis. This counseling provides extensive training covering home purchases, household budgeting, the owner's responsibilities associated with home ownership, and other related topics. The City's *CityLiving* mortgage program also has this requirement and, according to data from U.S. Bank and the Mortgage Bankers Association of America, the *CityLiving* program has default and foreclosure rates that are approximately half of the national average. Because of this impressive performance, staff strongly supports this training as a requirement of Minneapolis Advantage.

The proposed forgiveness of the loan over a five year period of time is offered to encourage the stable owner occupancy of the home. Five years is the amount of time considered by the real estate community as the length of time people own a home before moving on to their next home during the earlier years of home ownership.

To fund this program, the Mayor has included in the 2008 budget an appropriation of \$500,000 out of CPED's 2008 discretionary development allocation in fund 01SPH – the Legacy fund. With this level of funding the program should be able to fund 50 loans.

In addition to the City's \$10,000 loan, the Come Home to Camden Housing Coalition (CHC) which is made up of the Folwell, Webber-Camden and McKinley neighborhoods acted to support a home ownership incentive by providing 40 fully deferred loans of \$2,000 in each neighborhood using their NRP dollars. In December, the Family Housing Fund approved a match of \$2,000 raising the incentive to \$4,000 for each property. This brings the total resources to \$14,000 for each homebuyer in these neighborhoods.

Harrison neighborhood has also indicated its support for the program and is providing \$4,000 in mortgage assistance that can be added to the City's assistance. That assistance is similarly forgiven over a five year time period. In addition, Harrison has \$15,000 that can be provided to complete renovation work to the home. This brings the potential assistance level in the Harrison neighborhood to \$29,000.

The neighborhoods currently partnering with the City on this program strongly support it as a way to recreate and maintain healthy sustainable neighborhoods. Home ownership investment will stabilize the neighborhoods and have a positive effect upon home sales. Staff will be contacting other eligible neighborhoods with the hope they may similarly add loan resources to this program for their neighborhood.

The proposed program would only be available in areas that have experienced high rates of foreclosure and that have a larger percentage of homes on the City's 249 list as of December 31, 2007. A map is attached identifying the percentage of homes that are currently on the 249 list by neighborhood. It is proposed that this new program only be available to the neighborhoods in the three highest levels indicated on this map. These guidelines for the proposed demonstration program include an annual review of the numbers of homes on the 249 list in Minneapolis neighborhoods. Staff is requesting that the Council authorize the CPED Director or his designee to approve changes to the list of eligible neighborhoods coming out of this annual review.

The lender for the City will be Greater Metropolitan Housing Corporation (GMHC) who has contracted with the City to provide lending services for CPED programs. The City's cost for GMHC's services will be paid out of resources that have already been appropriated to pay administrative costs for CPED program. GMHC is also the lender for the CHC neighborhoods and GMHC will be paid by the neighborhood for their services. Harrison's program is administered by the Center for Energy and Environment who will likewise be paid by the neighborhood.