

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: JANUARY 11, 2023

**REGARDING: APPROVAL OF AMENDED GUIDELINES FOR THE
DOWNPAYMENT ASSISTANCE PROGRAM AND ALLOCATION
OF \$2,000,000.00 OF THE HOUSING TRUST FUND DOLLARS TO
THE PROGRAM.**

Requested Board Action

Approval of the amended Saint Paul Housing and Redevelopment Authority (“HRA”) Downpayment Assistance Program guidelines and allocation of \$2,000,000 of the Housing Trust Fund dollars to the program.

Background

The Downpayment Assistance Program (“DPA”) is a program that began in 2020 to support housing affordability and wealth building through homeownership opportunities. Since the program began, the HRA has served over 40 households earning up to 60% of Area Median Income (AMI), allowing them to benefit from the stability and wealth building opportunities of homeownership while addressing the homeownership gap and displacement pressures across the City. The DPA program is funded through the City of Saint Paul’s Housing Trust Fund and has received additional funding from Minnesota Housing Finance Agency’s Impact Fund.

The Mayor’s 2023 city budget includes the newly created Inheritance Fund initiative, which is intended to mitigate some of the lost generational wealth of direct descendants of families whose homes were taken for the construction of I-94 in the Rondo neighborhood of Saint Paul. This targeted approach to Saint Paul’s specific history allows the City to address homeownership disparities in a hyper-local way that can not only replace lost wealth but also can contribute to community healing. The initial deployment of the Inheritance Fund is proposed as an embedded layer in two existing City/HRA programs which support low- and moderate-income homeowners in Saint Paul: the Downpayment Assistance Program (“DPA”) and the Homeowner Rehab Program (formerly called the Citywide Rehabilitation Program). The remainder of this report

addresses the Downpayment Assistance program only as the Homeowner Rehab Program is addressed in a separate HRA Board report.

Along with the inclusion of the Inheritance Fund layer, staff is recommending changes to the eligibility and financial terms of the program to better achieve program goals and meet borrower’s needs in an ever-changing housing market. The current DPA guidelines were adopted by the HRA in 2019, prior to the start of the pandemic. The economic impacts of the pandemic, the continued increase in home prices, and more recently, increased interest rates have all contributed to increased barriers to homeownership, especially for low-income households. According to Minneapolis Area of Realtors’ housing affordability index as of September 2022, the Twin Cities’ single-family housing market was at its least affordable point of any month since it started tracking data in 2004. Proposed changes to the eligibility requirements are outlined in Table 1 below.

Table 1. Proposed Eligibility Changes

Current	Proposed	Rationale
Homebuyer households must earn 60% Area Median Income (AMI) or less.	Homebuyer households must earn 80% AMI or less. Homebuyer households eligible for the Inheritance Fund layer of DPA must earn 100% AMI or less.	Many rejected applications are because the applicant earns between 61 and 80% AMI. Households earning 80% AMI also suffer barriers to affordable homeownership.
Property must be within an eligible census tract.	Property can be anywhere in the City of Saint Paul.	The program was originally limited to areas of the city identified as experiencing displacement pressures. While offering affordable homeownership in a gentrifying community may mitigate displacement for that particular household, home sales generally can increase gentrification pressures. Conversely, allowing homes to be purchased in parts of the city where low-income buyers are already largely priced out can also address displacement for the family while simultaneously

		providing more economic integration in all parts of the City.
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With those changes in eligibility, the resulting layers of downpayment assistance available to homebuyers are reflected in Table 2 below.

Table 2. DPA Layers and Award Maximums

DPA Layer	Eligibility	Max Award
Regular	<input type="checkbox"/> Earn 80% AMI or less	\$40,000
First Generation	<input type="checkbox"/> Earn 80% AMI or less <input type="checkbox"/> Have never owned a home <input type="checkbox"/> Parents never owned a home or lost most recently owned home to foreclosure	\$10,000
Inheritance Fund – Generational Wealth	<input type="checkbox"/> Earn 100% AMI or less <input type="checkbox"/> Be a direct descendant of a property owner whose land was taken for I94	\$50,000
Inheritance Fund - Community Wealth	<input type="checkbox"/> Earn 100% AMI or less <input type="checkbox"/> Be a direct descendant of a property owner whose land was taken for I94 <input type="checkbox"/> Purchase a home in historic Rondo	\$10,000
Potential Max Available		\$110,000

Applications from applicants who are eligible for the Inheritance Fund layers will be processed immediately. All other applications will be processed on a first come, first served basis. All proposed changes to the financial terms of the program are provided in the redlined 2019 Downpayment Assistance Program Guidelines attachment. A summary of the most substantive of these proposed changes is shown in Table 3 below.

Table 3. Proposed Financial Term Changes

Current	Proposed	Rationale
30-year term, repayable in full upon resale/refinance or maturity	15-year term, forgiven at an amortized rate of 1/15 th annually	Most homeowners do not stay in their home for 30 years. Requiring full repayment does not allow the recipient to enjoy the full extent of the financial opportunities offered by homeownership.

<p>\$50,000 limit on combined college savings and retirement account balances</p>	<p>No limits on college savings or retirement account vehicle balances</p>	<p>Low-income families should not have to compromise sufficient college and retirement savings to achieve homeownership. These savings vehicles may also trigger tax penalties if drawn upon.</p>
<p>Home prices are limited to HUD HOME program limits</p>	<p>There is no purchase price limit</p>	<p>HOME funds were once considered as a source of funding for the program and would trigger purchase price limits. HOME funds are not currently being considered for the program. Purchase price limits do not account for households with similar incomes to qualify for very different mortgage amounts, and they may have the unintended consequence of pricing homebuyers out of some neighborhoods and exacerbating economic segregation.</p>

Budget Action

The attached Financial Analysis amends the 2023 HRA budget.

Future Action

Staff may seek HRA approval to apply for Minnesota Housing’s Impact Fund in 2023, if the updated terms to the program are able to be met using such funds. Staff is in contact with Minnesota Housing to engage on this possibility.

Financing Structure

Program funds will be used for downpayment assistance, closing costs, property inspections, and program marketing and outreach. Of the \$2 million requested from the HTF, up to \$50,000 is reserved for grants for property inspections and program marketing and outreach, although the balance of this sum may be used for downpayment and closing cost assistance loans once those other funds reserved for downpayment and closing cost assistance loans have been exhausted.

PED Credit Committee Review

At its December 27, 2022 meeting, the Planning and Economic Development (“PED”)’s Credit Committee voted to approve origination of loans consistent with these Guidelines and with a risk rating of “Forgivable.”

Compliance

Not applicable. Given the nature of the program and the sources of funds, compliance requirements do not apply.

Green/Sustainable Development

Not applicable.

Environmental Impact Disclosure

Not applicable.

Historic Preservation

Not applicable.

Public Purpose/Comprehensive Plan Conformance

The Guidelines and requested allocation meet objectives of the Housing Plan, adopted as part of the City’s 2030 Comprehensive Plan, Section 6.0, Strategy 2: Preserve and Promote Established Neighborhoods and Strategy 3: Ensure Availability of Affordable Housing.

Recommendation:

The Executive Director recommends approval of the Saint Paul HRA Downpayment Assistance Program Guidelines.

Sponsored by: Commissioner Tolbert

Staff: Tara Beard (651-266-6636)

Attachments:

- **Redlined 2019 Downpayment Assistance Program guidelines**
- **Clean 2023 Downpayment Assistance guidelines as proposed**