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

REPORT TO THE COMMISSIONERS **DATE: NOVEMBER 28, 2012**

REGARDING: APPROVAL OF ALLOCATION PLAN FOR $2.5 MILLION OF THE AFFORDABLE HOUSING TRUST FUND

Requested Board Action: Approve the allocation plan for $2.5 million currently held in the Affordable Housing Trust Fund.

Background
In 2010, the HRA created the Affordable Housing Trust Fund (AHTF). At its formation, the intent was to deposit anticipated proceeds from the Carondolet project into the AHTF, receipt of which is not expected to begin until 2017. In 2011, the Mayor and Council/HRA approved the deposit of $2.5 million in STAR funds into the AHTF. Since that time, the HRA Board has held work sessions to discuss the use and allocation of the AHTF.

At the work sessions, PED staff presented information on the loss of revenues and the increasing affordable housing need; PED staff also presented information on new national initiatives to assist homeowners facing foreclosure. While no formal action was taken, the Board acknowledged the staff presentation, and identified three areas of highest concern: foreclosure prevention efforts/keeping people in their homes; preservation of existing affordable housing, including multi-family units; and new construction of affordable multi-family housing units.

Based on these discussed priorities, and in discussion with Mayor Coleman, staff is proposing the following allocation of the currently available resources ($2.5 million) in the AHTF:

1. Foreclosure Prevention: $750,000
    a. SHOP Foreclosure Buyback Program - $200,000
    b. Preserving Senior Homeownership - $150,000
    c. FHA Title I Home Improvement Loan Program - $400,000 to help current homeowners, with mortgage amounts exceeding home value, access loan dollars for home improvements

2. Preservation of Affordable Multi-Family Housing: $750,000

3. New Construction of Affordable Multi-Family Housing: $500,000

4. Neighborhood Stabilization Program: $500,000

Following is a summary of each of the proposed uses noted above:

<u>Foreclosure Prevention: SHOP Program Foreclosure Buyback Program - $200,000</u>

SHOP™ is a unique partnership of Dayton's Bluff Neighborhood Housing Services and Greater Metropolitan Housing Corporation (GMHC), offering a range of lending products including FHA, conventional, and programs for first time buyers, including a Contract for Deed (CD) program called Bridge to Success.

This program was recently recapitalized with new funding from the Minnesota Housing Finance Agency (Minnesota Housing) and the Family Housing Fund. (Using Invest Saint Paul dollars, the HRA provided a $375,000 credit enhancement for this program at its inception, which remains in place with this new funding.) Financing is provided at a fixed-interest rate of 7.5%, 30 year amortization with a 10 year balloon. (This was recently extended from three years, recognizing that higher-risk borrowers need adequate time to prepare for successful refinancing while working with a homeownership advisor.) Incomes of borrowers financed with funds from Minnesota Housing may not exceed 115% of area median income. Borrowers are required to invest a minimum of $2,000 of their own funds into the transaction, and the maximum borrower financing amount is $225,000.

The program is available in high need census tracts; these are defined by Minnesota Housing as areas with a high need for community stabilization, including Saint Paul and Minneapolis, as well as areas within ½ mile of the four major transit corridors. Outreach emphasis is on foreclosed homes located in high-need census tracts. Nonprofit and for-profit developers, real estate agents and other community partners with a presence in targeted areas are being utilized to market this program.

An interest of some HRA board members is the purchase of homes from homeowners facing foreclosure and the concurrent resale back to the affected homeowner as a strategy to keeping people in their homes. The proposed strategy to accomplish this is as follows. The homeowner negotiates a short sale agreement with their lender. Once this agreement is reached, GMHC/DBNHS inspects the property to ensure it meets GMHC/DBNHS/ SHOP standards for homeownership. If it does, GMHC or DBNHS buys the home using their line of credit from the owner via a short sale. Upon taking title to the house, GMHC/DBNHS sells the house to SHOP 2012 LLC; SHOP 2012 LLC in turn sells the home to the previous owner (if they meet the SHOP requirements) on a contract-for-deed. This strategy provides the homeowner time to repair their credit for a future mortgage and provides for a more affordable mortgage payment. GMHC/DBNHS expects to make some *modest* home improvements to the properties to meet SHOP standards. The proposed $200,000 for this program would be used to make the necessary *modest* improvements; this is not a rehab program. Homeowners with homes needing extensive work will not qualify for this program. All homeowners need to meet the SHOP/Bridge to Success underwriting guidelines. Upon HRA allocation approval, SHOP/GMHC/DBNHS/PED staff will develop and finalize formal guidelines, and draft and execute all necessary agreements and contracts.

Foreclosure Prevention: Preserving Senior Homeownership - $150,000

Research shows that the majority of older adults want to stay in their own homes as they age. Besides the question of preference, aging in place is much more cost-effective for older adults and the community than moving into an assisted living or skilled nursing facility, and the quality of life is generally much better. Oftentimes, the obstacle to seniors remaining in their homes is simple modifications to the home; while these modifications may be inexpensive to some, they can be very unaffordable to low-income seniors.

Staff is proposing to execute contracts totally $150,000 with GMHC and DBNHS to work with in-home senior care service providers to provide simple home modifications for seniors that will help ensure seniors can remain in their homes and not be forced to move. Augustana Care, a charitable organization serving 6,000 older adults annually, may be one of the partners. They launched Access Solutions as a home modification program in 2005 to meet the needs of older adults who want to age in place by remaining in their own homes. Working with GMHC now in other cities, they combine knowledge of design, and physical and occupational therapy to assess how an individual functions in his/her home, and provide recommendations for improving functional abilities. Common modifications include space planning to create safe pathways; providing a chair lift so seniors can move from the first floor living area to the bedrooms/bath on a second floor; installing handrails; grab bars; etc.

Both GMHC and DBNHS administer a variety of loan programs seniors may also access, along with the City of Saint Paul programs. Of the $150,000 program budget, $20,000 will be utilized for administrative fees – approximately $450 per loan. Again, services would include initial inspections, writing scopes of work, reviewing contractor bids, work inspection, and review of applications and payments to the contractors. Assuming an average cost of $3,000 per home, it is anticipated that 43 seniors would be served over an 18 month period. Upon HRA concept/allocation approval, staff will work with GMHC and DBNHS to determine and finalize program details, and draft and execute all necessary agreements and contracts.

Foreclosure Prevention: FHA Title I Home Improvement Loan Program - $400,000 to help current homeowners with mortgage amounts exceeding home value

According to the City of Saint Paul's Housing Plan, "it is estimated (that) the deferred maintenance needs of Saint Paul's single family housing stock in low and moderate income census tracts exceeds $750,000,000." In addition, the foreclosure crisis has had a negative impact on home values in some of Saint Paul's neighborhoods. As a result, some homeowners find themselves "under water," with little or no equity in their home. As a result, these homeowners cannot access a sufficient level of home equity loan products, and thus do not have the funds to properly maintain their homes. MN Housing does have a program, but the unsecured amount one can access is oftentimes insufficient; in the case of MN Housing, $7,500 is the maximum for a unsecured (i.e., no equity) loan. If homeowners cannot maintain their homes, they are at risk of losing more equity/valuem, and potentially their home if significant maintenance issues go unaddressed.

One program that could be put into place to assist homeowners who lack equity in their homes is the Federal Housing Administration's Title I Home Improvement Loan Program. The Title I Program insures loans made by lenders/investors up to 90% of the value on any single loan. These loans finance the rehabilitation of residential properties (both single family and multi-family), as well as the construction/rehabilitation of nonresidential buildings, such as garages. While loans over $7,500 must be secured by a mortgage on the property, unlike MHFA's Fix-up fund, there are no loan-to-value requirements. The maximum loan amount for a single family home is $25,000; the maximum term is 20 years. Loan pricing is usually based on the prevailing market rate, but some communities have created reduced interest rate programs. Title I does have maximum debt-to-income ratio requirements, but the program has no minimum credit score requirements. The program also has no minimum or maximum household income limits. As with any HUD program, there is a lengthy application process and a maze of compliance regulations that must be worked through. Ultimately however, the program could be of great benefit to homeowners who currently lack equity in their homes, but who need to make a financial investment to maintain and/or improve their homes. Leaders of GMHC and DBNHS have had preliminary discussions with HUD, as well as a major financial institution that has expressed interest in investing in the program. The $400,000 in AHTF dollars could be used to make an investment, or part of the investment, in the 10% of each home improvement loan not insured by Title I; thus an investment of $100,000 would result in $1,000,000 in home improvement lending. It may be possible to leverage AHTF dollars even more by using them as a loan loss reserve against a 10% investment made by others.

It is anticipated that it may take months before this program could be formally established and underwritten with a lender. PED staff has been conferring with MHFA leadership, GMHC, and DBNHS. Upon concept/allocation approval by the HRA Board, staff will continue to work with key partners to develop this program. Staff will return to the HRA Board with recommendations for final terms of the program.

Multi-Family Development ($1,250,000): $750,000 for preservation of existing affordable multi-family housing projects; and $500,000 for the construction of new affordable multi-family housing projects

The HRA has consistently received federal CDBG and HOME dollars to help finance affordable housing projects – both new construction and preservation/renovation. That funding has been cut considerably: Saint Paul's award of CDBG fell from $8.6 million in FY 2010 to $7.2 million in FY 2011. HOME was reduced from $2.4 million in 2010 to $1.3 million on 2012. (PED/HRA has historically been allocated approximately $2.8 to $3.0 million of Saint Paul's CDBG allocation, a portion of which funds affordable housing production and preservation.)

PED/HRA has a pipeline of over 10 affordable housing projects; gap has been estimated on some, but not all projects; the estimated total gap staff can estimate today exceeds $9.0 million. These projects propose to serve families, seniors, low-income single adults, and homeless youth. Some are preservation projects; many are new construction. The HRA also owns several properties purchased with CDBG dollars. We are nearing a HUD-imposed deadline to get these projects developed; if we don't, some CDBG funding may be at risk. There is a clear and significant need for additional resources if we are to realize the development of this much-needed housing for our low income constituents. As it does with all funding, PED staff will seek HRA board approval for individual projects which may utilize these funds.

Neighborhood Stabilization Program – Vacant Lot Development Partnership with Twin City Community Land Bank: $500,000

The Neighborhood Stabilization Program (NSP) is the primary reinvestment tool for cities, including Saint Paul, for addressing neighborhoods most impacted by the foreclosure crisis. Saint Paul has received $31 million for this effort, and we have successfully targeted investment dollars to redevelop over 180 units of existing, foreclosed housing in the Payne-Phalen, Dayton's Bluff, Frogtown, Rice Street area/Railroad Island, and West Seventh neighborhoods. All funds must be expended by March 2014. In each targeted neighborhood, there are multiple blocks where the NSP and ISP (Invest Saint Paul) programs have acquired 25%-50% of the houses on a block face with the intent to redevelop. This targeting strategy is providing transformative change that directly impacts the daily lives of neighborhood residents.

As a component of the program's investment strategy, some properties were acquired with the intent to demolish the existing structure and build new housing. Through the course of the program, it was determined that a higher proportion of housing was in an extremely deteriorated condition and required demolition, resulting in higher costs than originally projected for the program. In addition, the program acquired more property than required under the NSP contract. These acquisitions were made primarily to take advantage of opportunities, identified by policy-makers, to make a significant impact on blocks facing extreme disinvestment.

All recipients of NSP dollars are required to redevelop all properties touched by NSP funds within 10 years of the initial grant; all houses to be rehabbed must be completed and sold; all vacant lots must be redeveloped for residential use. The program has 64 vacant lots that must be redeveloped, requiring an additional investment of approximately $6.8 million. NSP staff project that there is insufficient NSP program income to provide for 100% of this additional investment. Another challenge to building new housing on NSP vacant lots is the lack of flexible construction financing. While PED and the HRA do not have the financial capacity to provide this construction financing, the Twin Cities Community Land Bank (TCCLB) does, through funding provided by Living Cities.

Living Cities, a consortium of national and local philanthropic organizations, has pooled commercial debt along with lower cost PRI (project-related investment) funding to create a $14.3 million loan pool to provide flexible construction financing. Originally provided at 6.5%, a combination of a rate reduction by Living Cities, and an interest-rate buy-down grant from Saint Paul Foundation, has decreased the rate to 5.5%. The TCCLB is administering these funds (in partnership with the Family Housing Fund and LISC) which can be deployed within the Living Cities boundaries; today the boundaries include portions of Wards One and Five, however we believe there may be an opportunity to utilize these construction funds in other NSP areas as well.

We have a unique opportunity to leverage $500,000 AHTF gap financing with Living Cities construction financing as well as TCCLB staff capacity to realize new development **now** on some of our NSP lots. The program would work as follows: The City will provide $500,000 in gap financing to the TCCLB, together with a list of NSP vacant lots within the Living Cities boundaries. The City (or the TCCLB, depending upon the most seamless structure PED staff develops) would sell selected lots to developers (Saint Paul CDCs and other qualified developers) for the total of our acquisition/holding costs. Developers would use the Living Cities construction financing, and have access to necessary gap. At a minimum, we would require the TCCLB to complete six homes. This number could potentially increase based on actual construction costs and sale proceeds. This is a unique opportunity for us to *leverage other funding to meet our legal obligations* under NSP, providing the added benefit of new construction – new investment – in a portion of our NSP neighborhoods.

Upon HRA approval of this concept/allocation, staff would negotiation terms and executed a contract with the TCCLB to execute this program.

Budget Action
Approve $200,000 of STAR AHTF for the SHOP Foreclosure Buyback program; approve $150,000 for Preserving Senior Homeownership; approve $500,000 in NSP funds towards program to be implemented in partnership with the Twin Cities Community Land Bank.

Future Action
Staff will seek Board approval of the final terms and conditions related to the FHA Title I Home Improvement Loan Program. Staff will also seek HRA approval on each project staff recommends for the $750,000 in preservation and $500,000 in new construction dollars.

Financing Structure
Funding for the SHOP Foreclosure Buyback, Preserving Senior Homeownership, and TCCLB Vacant Lot Development programs will be provided as grants. Terms and conditions to end users of the funding, however, will be developed in partnership with GMHC/DBNHS and TCCLB; these terms will be included in respective grant agreements.

PED Credit Committee Review
N/A. Credit Committee will review individual projects seeking the $750,000 in preservation and $500,000 in new construction dollars.

Compliance
All projects will comply with applicable compliance requirements.

Green/Sustainable Development
All projects will comply with applicable Saint Paul Sustainability requirements.

Environmental Impact Disclosure
N/A

Historic Preservation
N/A

Public Purpose/Comprehensive Plan Conformance
This action supports two key strategies detailed in the housing chapter of the Saint Paul Comprehensive: Preserve and Promote **Established Neighborhoods** and **Ensure the Availability of Affordable Housing Across the City**

<u>Preserve and Promote Established Neighborhoods</u>**:** This strategy seeks to ensure that established city neighborhoods are supported through the effective provision of infrastructure and services and that the older housing stock is reinvigorated so that neighborhoods remain desirable places to

live. Given the deferred maintenance needs of the aging housing stock, the City/HRA and its partners must allocate significantly more resources to the physical rehabilitation of older homes, including updates to make them more energy efficient.

Ensure the Availability of Affordable Housing Across the City**:** Given the ongoing cost of housing, the City/HRA and its partners must protect existing low-income housing units and support the development of new housing that includes units affordable to low and moderate income owners and renters. New affordable units are highly needed in neighborhoods where low- and moderate-income people have few housing choices.

The Housing Plan also provides guidance on funding priorities stating that, "While over the past few years the City/HRA focused most of its financial resources on new housing production, …reinvesting in existing affordable housing and home improvement are the activities that make the most of limited public housing resources. In addition, there are pressing housing needs in these two areas given the broad decline in the affordability of housing and the aging housing stock. As such, housing rehabilitation, preservation of existing affordable housing, and new production of low- and moderate-income housing should be top funding priorities for the City/HRA over the next five to ten years."

To implement the Housing Plan, Saint Paul has adopted broad policy principles to guide housing decisions in the City. Many of these principles are relevant to this Resolution including:

2.1. Maintain the vitality and high quality of life in existing stable neighborhoods by engaging in a variety of actions:

g. Support private investment in the existing housing stock by using city loans as a leverage.

h. Promote new construction of mixed-income housing to build upon existing neighborhood vitality and to improve the fiscal health of the City;

2.11. Engage in mortgage and personal finance education in the community.

2.12. Continue providing mortgage foreclosure prevention programs.

2.13. Continue to assess vacant housing conditions with City/HRA partners such as community development corporations, nonprofit organizations, private developers, district councils, and block groups, and prioritize City/ HRA revitalization assistance to areas with less vibrant housing markets.

2.14. Promote existing and innovative new programs and incentives that support rehabilitation of one- to three-unit residential properties, especially in areas with less vibrant housing markets.

2.15. Engage the investor and lender communities to revitalize areas with high concentrations of vacant housing and foreclosures.

2.18. Support the expansion of housing choices for seniors, particularly in neighborhoods that are underserved.

e. Continue to provide referrals to programs or services that enable seniors to age in their existing single-family homes

3.1. Support the preservation of publicly-assisted and private affordable housing.

3.2. Support new housing opportunities for low-income households throughout the city.

The Plan also suggests partnerships, such as those envisioned here, with organizations that have constituencies in need of mixed-income affordable housing, particularly in site acquisition.

Recommendation:
The Executive Director recommends that the HRA Board of Commissioners adopt the attached Resolution approving the allocation of the $2.5 million in Affordable Housing Trust Funds dollars, and authorizing the Executive Director to negotiate and execute all grant and other agreements related to Foreclosure Prevention ($750,000) and Neighborhood Stabilization Program – Vacant Lot Development Partnership with Twin City Community Land Bank ($ $500,000) as detailed above.

Sponsored by: Commissioners Carter and Stark

Staff: Cecile Bedor, 266-6628

Attachments

- **Attachment A - Resolution**
- **Attachment B - Budget Amendment**