MEETINGS SCHEDULED FOR NOVEMBER

Location:

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

<u>THURSDAY, NOVEMBER 15, 2012</u>

Regular Board Meeting
State Street Conference Room - First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, November 15, 2012.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

A G E N D A
Minnesota Housing Finance Agency
Board Meeting
Thursday, November 15, 2012
1:00 p.m.

State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of October 25, 2012
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   A. Changes, Start Up and Step Up Procedural Manuals
   B. Loan Modification, Capacity Building Revolving Loan Program
      - Greater Metropolitan Housing Corporation
   C. Changes, Quick Start Disaster Recovery Program Procedural Manual
7. **Action Items**
   A. Approval, Selection Low and Moderate Income Rental Program
      - Deer Ridge Townhomes, Alexandria
   B. Approval, Selection of Awardees for the Rehabilitation of Public Housing under the Publicly Owned Housing Program (POHP)
8. **Discussion Items**
   A. Agency Risk Profile
9. **Informational Items**
   A. Repayment of HOME funds, HOME Rental Rehabilitation Program
10. **Other Business**
11. **Adjournment**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, October 25, 2012
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:02 p.m.
2. **Roll Call.**
   Members present: Joe Johnson, Stephanie Klinzing, Steve Johnson, Auditor Rebecca Otto, John DeCramer, and Ken Johnson. Absent: Gloria Bostrom.
   Minnesota Housing staff present: Kathy Aanerud, Tal Anderson, Paula Beck, Jim Cegla, Jessica Deegan, Tana Douville, Phil Hagelberger, Mike Haley, Anne Heitlinger, Margaret Kaplan, Bill Kapphahn, Kasey Kier, Marcia Kolb, Julie LaSota, Brian Leer, Diana Lund, Eric Mattson, Leighann McKenzie, Shannon Myers, Tonja Orr, Terri Parker, John Patterson, Tony Peleska, John Rocker, Gayle Rusco, Megan Ryan, Joel Salzer, Becky Schack, Kayla Schuchman, Nancy Slattsveen, Rick Smith, Barb Sporlein, Jonathan Stanley, Eric Thiewes, Susan Thompson, Will Thompson, Mary Tingerthal, LeAnne Tomera, Katie Topinka, Ted Tulashie, Summer Watson, Xia Yang.
   Others present: Karly Schoeman, Dakota County CDA; Jean Lee, CHI/RRFC/APAHC; Frank Fallon, RBC Capital Markets; Cory Hoeppner, RBC Capital Markets; Andrew Michaelson, CommonBond; Susan Thompson, Habitat Minnesota; Chip Halbach, Minnesota Housing Partnership; Celeste Grant, Office of the State Auditor; Tom O'Hern, Office of the Attorney General.
3. **Agenda Review**
   Commissioner Tingerthal announced three changes to the agenda:
   - Additional materials had been provided for item 6.C., which amends an existing resolution.
   - Cory Hoeppner would provide a presentation on the post-sale report. Gene Slater will join by phone if he is able. The item would be presented immediately following the consent agenda.
   - Agenda item 7.A.1 had been revised to include additional low income housing tax credit awards.
4. **Approval of the Minutes.**
   A. Regular Meeting of September 27, 2012
   B. Special Meeting of September 27, 2012
   Joe Johnson moved approval of the minutes. Auditor Otto seconded the motion. Motion carries 6-0.
5. **Reports**
   A. Chair
   There was no chairman's report.
   B. Commissioner

Commissioner Tingerthal stated that the 320-page board packet speaks clearly to what the staff have been engaged in over the last month. Commissioner Tingerthal reported the following:

- Minnesota Housing was recognized with a State Legislative Campaign award from the National Association of State Housing Agencies for its success with the housing infrastructure bonds.
- The Commissioner was elected to the Board of the National Association of State Housing Agencies. Board meetings are held in conjunction with other meetings. The position will involve more phone work and policy work but no additional travel.
- The Governor's Office will participate in a virtual press event surrounding today's selections. A press release is being prepared. Commissioner Tingerthal asked that if Board members who are contacted regarding the selections refer the inquirer to Communications Director Megan Ryan.

The following staff introductions were made:

- Diana Lund introduced underwriter John Rocker. John's past experience includes consulting for investor-owners of troubled properties.
- Tony Peleska introduced Brian Leer. Brian brings IT management experience in the manufacturing and survey industries and will oversee project management, application development and software development for the Agency.

C. Committee

There were no committee reports.

6. Consent Agenda

A. Approval, Selections, Community Fix-Up Fund

B. Approval, 2013 Annual Action Plan

C. Approval, Reimbursement Declarations

Stephanie Klinzing moved approval of the consent agenda. John DeCramer seconded. Motion carries 6-0.

7. Action Items

A. 2012 Consolidated Request for Proposals

Mike Haley and Marcia Kolb provided a general overview of the RFP process and criteria for scoring and statistics about this year's selected applications. Jessica Deegan provided additional information regarding the selected proposals, including geographic information and historical funding trends throughout the state. It was noted that, because of the additional resource availability, nine more CRV proposals were funded over the previous year and more than one thousand additional multifamily units were funded.

7.A.(1). Approval, Multifamily Selections, Deferred Loans and Grants

Kayla Schuchman gave an overview of all Multifamily selections, again noting that the Agency was able to fund more applications because of the availability of the housing infrastructure bonds. Ms. Schuchman also noted that this year the Agency received the highest number ever of applications seeking tax-credits only and that all tax credit recommended applications were seeking no deferred Agency funding. Ms. Schuchman highlighted two of the recommended applications. Ms. Schuchman requested approval of the deferred loans and grants selections.

MOTION: Ms. Klinzing moved approval. Auditor Otto seconded the motion. Motion carries 5-0, with Joe Johnson recusing himself.

7.A.(2). Approval, Multifamily Selections, Low and Moderate Income Rental (LMIR), Low and Moderate Income Rental Bridge Loan (LMIR BL), and Preservation Affordable Rental Income Fund (PARIF) Programs - Old Home Plaza, St. Paul; Creeks Run Townhomes, Chaska; Bottineau Ridge Apartments, Minneapolis; River Pointe Townhomes, Thief River Falls; Park Row Crossing, St. Peter; North Meadows, Sauk Rapids; Concordia Arms, Maplewood; Rochester Square Apartments, Rochester; CommonBond VA Housing St. Cloud, St. Cloud; CommonBond VA Housing Fort Snelling, Minneapolis

7.A.(3). Approval, Multifamily Selections, Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Cost (FFCC) Programs - City Place Lofts, Minneapolis

7.A.(4). Approval, Multifamily Selections, Low and Moderate Income Rental (LMIR), Low and Moderate Income Rental Bridge Loan (LMIR BL) and Preservation Affordable Rental Income Fund (PARIF) Programs; Minneapolis Portfolio Preservation, Minneapolis

Susan Thompson and Julie LaSota presented these requests, highlighting information about the Minneapolis Portfolio Preservation project, which will preserve affordable workforce housing in the Elliot Park and Loring Park neighborhoods. Ms. Susan Thompson requested approval of items 7A2, 7A3 and 7A4, noting that each development included would return to the board for approval for the closing of the loan. Ms. Thompson highlighted the Old Home Plaza and Commonbond VA Housing St. Cloud proposal. **MOTION:** Joe Johnson moved approval of item 7A2. John DeCramer seconded the motion. Motion carries 5-0, with Ken Johnson recusing himself. **MOTION:** Joe Johnson moved approval of item 7A3. John DeCramer seconded the motion. Motion carries 6-0. **MOTION:** Stephanie Klinzing moved approval of item 7A4. Steve Johnson seconded the motion. Motion carries 6-0.

7.A.(5). Approval, Multifamily Selections, Preservation Affordable Rental Investment Fund (PARIF) - CIP Scattered Site 2012, Crystal, Golden Valley, Hopkins, St. Louis Park

7.A.(6). Approval, Multifamily Selections, Preservation Affordable Rental Investment Fund (PARIF) - Northbridge Apartments, Albert Lea

7.A.(7). Approval, Multifamily Selections, Preservation Affordable Rental Investment Fund (PARIF) - Vesterheim Manor, Preston

Julie LaSota provided information about the selected developments, highlighting the Northbridge Apartments development, which is a top preservation priority for the USDA. It was noted that PARIF is a state appropriation that, since its inception in 1988, has been used to assist developments with project based rental assistance and, through the Business Plan to End Long-Term Homelessness, is also available to fund units serving the formerly homeless. Households in assisted units would not be able to afford rents without the deep subsidy that PARIF provides. Many of the households benefitting from the funding are elderly and/or disabled. **MOTION:** Auditor Otto moved approval of items 7A5, 7A6 and 7A7. John DeCramer seconded the motion. Motion carries 6-0.

7.A.(8). Approval, Multifamily Selections, Housing Tax Credit Program, 2013 Round 1 Selections

Ms. Kayla Schuchman presented this request, noting that the selections had been revised after the board mailing to reflect additional credits received for administration by Minnesota Housing due to a per capita adjustment. These additional credits were awarded to the Bottineau and Old Home proposals. Ms. Schuchman stated that application trends included the following: a majority of developments serving families with children; significant leverage; financial readiness to proceed with no gap funds needed; transit oriented development or access to public transit; smoke free buildings and preservation. Ms. Schuchman highlighted the Bottineau and Hillside developments. Commissioner Tingerthal stated that the Agency traditionally has three to four times as many applications as available credits and this year there were a number of very good proposals for which no gap resources were needed. **MOTION:** John DeCramer moved approval of this item. Stephanie Klinzing seconded the motion. Motion carries 4-0, with Ken Johnson and Joe Johnson recusing themselves

7.A.(9). Approval, Single Family Selections, Community Revitalization Fund

Ms. Devon Pohlman provided an overview of the selections, noting that significantly more proposals are being recommended for funding due the availability of housing infrastructure bond proceeds. Ms. Pohlman noted that, in order to most strategically utilize the available resources, staff are careful to ensure that CRV funded projects are not eligible to be funded with other Agency resources. Mr. Eric Thiewes profiled families who have benefitted from CRV funding. Ms. Nancy Slattsveen provided key numbers and additional information about the awards and projects they will fund. **MOTION:** John DeCramer moved approval. Stephanie Klinzing seconded the motion. Motion carries 5-0, with Joe Johnson recusing himself.

8. Discussion Items

John DeCramer stated that he was impressed with the proposal that involved Sentence to Serve, as well as the one also involved Dunwoody and perhaps some other technical colleges. Mr. DeCramer asked if the Agency ever involves a technical college that would build a home or a series of homes that would be part of the training and education in addition to providing a low cost or affordable home. Ms. Tonja Orr stated that the Agency hasn’t done a lot of work with the YouthBuild programs, which are in the high schools. The programs pose challenges in terms of management. One of the biggest challenges is for the school is to find the money to fund the supervisor, which the Agency cannot fund with capital costs

Stephanie Klinzing requested additional information to describe and explain what the Agency considers to be sustainable or green. Commissioner Tingerthal stated that, at the NCSHA meeting, there was a robust discussion regarding the meanings of sustainable and green. In general, the Agency started on a path several years ago for giving points for green standards but these standards are now requirement. Minnesota Housing is ahead of the curve than other HFAs but there are many threads that go through that so it warrants review. The Commissioner suggested that, at a future meeting, time be scheduled to review with the board just where sustainable and green standards have been inserted into our programs, where priority points are given and a history of how the Agency got to this point. Ms. Klinzing stated that one issue with sustainability and green is accountability to the public at large for the use of Agency funds.

People may not understand the tie between sustainability and green housing and it is important to do a good job of explaining how these features can be incorporated in affordable housing.

Ms. Klinzing also requested that the Agency use to care to be aware of how Medicaid waiver availability impacts senior housing issues. Cut backs in waiver availability make it more difficult for private non-profits to provide this type of housing when they aren't getting the funding they need. If they continue on this downward spiral, for the people on the waivers, the facilities won't be able to sustain their housing.

John DeCramer stated he was impressed by the amount of housing being provided and the number of jobs being made available through it. He asked that the jobs number be kept in mind; it's not just the housing but we're also putting people to work.

9. Informational Items

A. Post-Sale Report, Homeownership Finance Bonds, 2012 Series B.

Cory Hoeppner presented post sale report, noting pricing and investor interest for the series. Mr. Hoeppner stated that Minnesota Housing's recent executions which have driven down our borrowing rate were the talk of the NCSHA conference. . The deal has been submitted to the Bond Buyer for its "deal of the year," and Governor Dayton has provided a letter in support of the submission. No action needed.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 3:02 p.m.

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AGENDA ITEM: 6.A.
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Approval, Changes, Start Up and Step Up Procedural Manuals

CONTACT: Kimberly Stuart, 651-296-9959
kim.stuart@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests approval of the Start Up and Step Up Procedural Manual changes that remove specification of the service release premiums (SRPs) paid to participating lenders from the manuals, allowing staff to vary the premiums in accordance with market conditions and Agency financial goals.

FISCAL IMPACT:
The Procedural Manual implements requirements for the program, which is budgeted through the Affordable Housing Plan. In setting the SRPs paid to the lenders, staff needs to incent a level production that maximizes return to the Agency and meets the mission objectives of the program.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Manual Change
- Exhibit A

BACKGROUND:

The board approved the Start Up and Step Up Procedural Manuals this summer ahead of the homeownership program redesign scheduled for implementation in December. The redesign includes simplifying the first time homebuyer program (Start Up) and adding a secondary market program (Step Up) with secondary market financial execution (see Exhibit A).

Historically, the maximum interest rate spread allowed under the tax code and Agency financial objectives limited lender compensation under the first time homebuyer program to a 1 point SRP paid by Minnesota Housing and a 1 point origination fee collected from the borrower at closing. The SRP is the amount of money paid to the lender upon sale of the loan under Start Up or Step UP to release the servicing rights of the loan to the Minnesota Housing Master Servicer. Under the new program structure, lender compensation will vary under Step Up where all loans are sold on the secondary market and Start Up where loans may be placed in bond sales or sold on the secondary market.

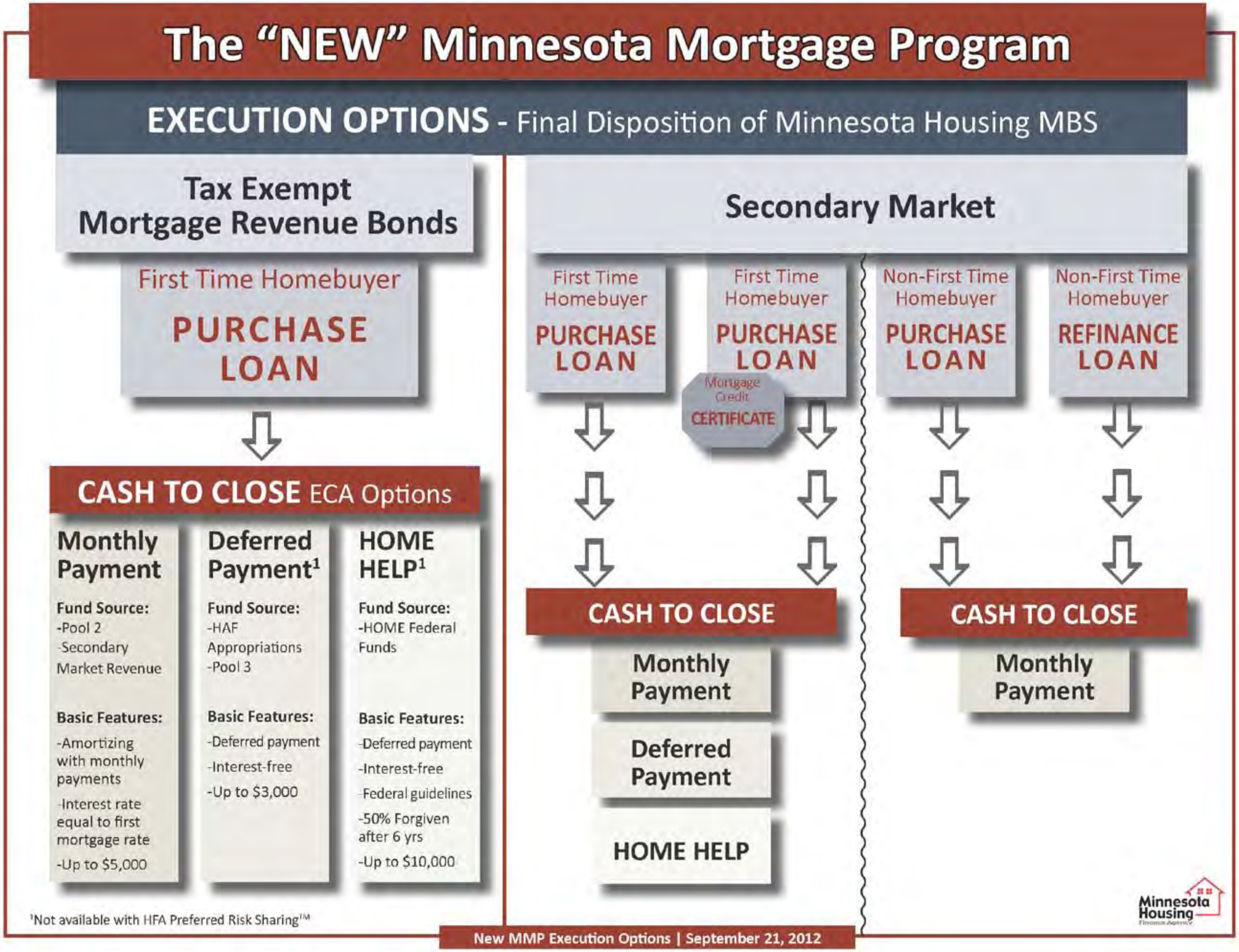
Removing the specific SRP amount from the manual allows Finance staff in cooperation with Single Family staff to set the SRP to meet market conditions, Agency financial targets and program mission objectives.

Start Up and Step Up Manual Language Change:

1.08 Lender Compensation

Lender is compensated for each loan purchased by the Master Servicer as follows:

• Origination fee collected from the Borrower in accordance with RESPA; and
• Service release premium ~~of 1% of the purchase price~~ paid by the Master Servicer in an amount established by Minnesota Housing and posted on the Minnesota Housing website.


The "NEW" Minnesota Mortgage Program
EXECUTION OPTIONS - Final Disposition of Minnesota Housing MBS
Tax Exempt Mortgage Revenue Bonds
First Time Homebuyer PURCHASE LOAN
CASH TO CLOSE ECA Options
Monthly Payment
Fund Source: -Pool 2 -Secondary Market Revenue
Basic Features: -Amortizing with monthly payments -Interest rate equal to first mortgage rate -Up to $5,000
Deferred Payment1
Fund Source: -HAF Appropriations -Pool 3
Basic Features: -Deferred payment -Interest-free -Up to $3,000
HOME HELP1
Fund Source: -HOME Federal Funds
Basic Features: -Deferred payment -Interest-free -Federal guidelines -50% Forgiven after 6 yrs -Up to $10,000
1Not available with HFA Preferred Risk Sharing™
Secondary Market
First Time Homebuyer PURCHASE LOAN
First Time Homebuyer PURCHASE LOAN
Mortgage Credit CERTIFICATE
Non-First Time Homebuyer PURCHASE LOAN
Non-First Time Homebuyer REFINANCE LOAN
CASH TO CLOSE
Monthly Payment
Deferred Payment
HOME HELP
CASH TO CLOSE
Monthly Payment
Minnesota Housing
New MMP Execution Options | September 21, 2012

Minnesota Housing Finance Agency

AGENDA ITEM: 6.B
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Capacity Building Revolving Loan Program
Greater Metropolitan Housing Corporation ("GMHC")

CONTACT: Julie LaSota, 651-296-9827
julie.lasota@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Adoption of a Resolution extending the maturity date of an existing $1,000,000 Capacity Building Revolving Loan Program loan to June 1, 2014 and if deemed appropriate upon further review by Agency staff , modifying the terms of the loan to be similar to a revolving line of credit(instead of a term loan),.

FISCAL IMPACT:
Traditionally the fiscal impact of this request has been minimal. The Capacity Building Revolving Loan Program, funded out of the Housing Affordability Fund ("Pool 3") was designed as a moderate risk revolving loan program versus a grant program in an attempt to continually provide this needed pre-development resource. Prior to executing the recommended extension, the Agency must be in receipt of all accrued interest to date, estimated to be $165,000. Extending the maturity date of the principal balance will delay the Agency's ability to revolve these funds into other Pool 3 activities.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

Board Agenda Item: 6.B
Attachment: Background

Background:
In an effort to continue to provide a resource for predevelopment lending, earlier this year Greater Metropolitan Housing Corporation (GMHC) requested a five year renewal of its $1 million loan under the Non-Profit Capacity Building Revolving Loan program that was scheduled to balloon on June 1, 2012. In order to incorporate this program request into the overall funding decisions in conjunction with the development of the 2013 Affordable Housing Plan (2013 AHP), staff recommended a six month extension of this maturing loan. This recommendation was approved by the Board at its May 24, 2012 meeting with MHFA Resolution 12-036.

The 2013 AHP approved by the Board in September, 2012 includes $1 million under the Non-Profit Capacity Building Loan Program. GMHC has again requested an extension of the $1,000,000 balloon payment scheduled for December 1, 2012 so that the organization can continue to have a resource for predevelopment lending.

Staff is recommending an 18 month extension of the balloon payment which will result in a new maturity date of June 1, 2014. The extended maturity date will better coincide with GMHC's reporting subject to their calendar year fiscal year end, and will be more compatible with the typical two year life span of an individual loan funded with this program. In conjunction with this request, staff requests the ability to determine whether a revolving line of credit structure is more appropriate for this program, and if so, to incorporate this into the loan modification. Currently the borrower has drawn down 100% of the funding and accrues interest on the funds whether they are deployed or not. Moving to a line of credit type structure could help GMHC control some of the costs associated with operating this program.

All of the accrued interest must be paid prior to execution of the extension.

Board Agenda Item: 6.B
Attachment: Background

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

LOAN MODIFICATION AND EXTENSION OF LOAN TERM
NON-PROFIT CAPACITY BUILDING REVOLVING LOAN PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has heretofore entered into a $1,000,000 Loan Agreement with Greater Metropolitan Housing Corporation (GMHC) under the Capacity Building Revolving Loan Program dated July 25, 2002, a First Amendment to Loan Agreement on May 1, 2007 and a Second Amendment to Loan Agreement dated May 31, 2012; and,

WHEREAS, it is the desire of Agency staff to extend the Maturity Date to June 1, 2014 and to modify the terms of the loan if a determination is made by staff that a revolving line of credit structure is more appropriate for this program; and

WHEREAS, Agency staff has advised the Board that the loan program administered by Greater Metropolitan Housing Corporation continues to be in compliance with Minn. Stat. ch. 462A.21, Subdivision 3a and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT Agency staff, upon receipt of all accrued interest, may enter into a third amendment to the Loan Agreement extending the maturity date from December 1, 2012 to June 1, 2014. The amendment to the Loan Agreement may also incorporate changes to the loan structure if Agency staff deems it more appropriate to provide this funding as a revolving line of credit. All other terms of the original Loan Agreement will remain unchanged.

Adopted this 15th day of November, 2012.

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CHAIRMAN

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AGENDA ITEM: 6.C.
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Approval, Changes, Quick Start Disaster Recovery Program Procedural Manual

CONTACT: Calvin Greening , 651-296-8843 cal.greening@state.mn.us
Gene Aho, 651-297-3129 gene.aho@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:

Staff is hereby requesting Board approval for recommended changes to the Quick Start Disaster Recovery Procedural Manual within the sections that specify the maximum loan amount, as well as the number of Quick Start loans a borrower may receive as a result of the Northeast Minnesota flood disaster of 2012. These changes will expand the utilization of Quick Start funds for repair of properties that have sustained a higher level of damage along with easier access to multiple loan funding (maximum two loans per property) to expedite meeting critical needs of the disaster victims.

FISCAL IMPACT:

This temporary modification allows expanded use of the $12.2 million currently allocated for Quick Start in this disaster by addressing a new need for a higher level of funding in conjunction with access to multiple loan funding to meet critical needs.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Quick Start Loan Program Appendix

Board Agenda Item: 6.C.
Attachment: Background

BACKGROUND:

The Quick Start Disaster Recovery Program provides state financial assistance to individuals whose residence or rental property sustained damage as a result of flood or other eligible disaster events that are not fully covered by the Federal Emergency Management Agency (FEMA), Small Business Administration (SBA) or hazard/flood insurance proceeds. State assistance is provided in the form of an interest-free, non-amortizing, forgivable loan under the conditions defined in Section 4.06 of the Procedural Manual. In response to the Minnesota Flood Event of 2012 (Federal Disaster Declaration--DR. 4069), the Minnesota Legislature allocated $12.2 million dollars to fund the Quick Start loan program.

Staff has identified a need for additional disaster relief funding above the current maximum loan amount of $30,000 for the Quick Start loan program. A larger-than-anticipated number of homes sustained levels of damage that exceed our current maximum loan amount, but not high enough to be considered for other relief funding such as buyouts from Federal or State resources. Lack of funding resources has created a need for additional assistance to bridge the gap.

An additional issue centers on critical needs to fund furnaces and other mechanical components with the onset of winter. Immediate funding is necessary to assist with the challenges to borrowers in managing the bid process and contractors toward completion of a large scope of work. Allowing the victims access to two Quick Start loans provides an immediate solution to the critical needs issue. Accordingly, staff recommends the following changes to the Quick Start Disaster Recovery Program Procedural Manual:

1) Increase the maximum loan amount from $30,000 to $ 40,000.00; and
2) Allow funding for a maximum of two loans to the same borrower.

This change would be temporary and implemented only for the Northeast Minnesota flood disaster of 2012. All other requirements of the Quick Start Loan Program, including requirements that other federal funding and hazard insurance resources must be applied prior to Quick Start funds, remain in effect.

Quick Start Loan Program Appendix 2A – June 14-June 21, 2012 Minnesota Flood Disaster

Declaration #DR 4069

Date of Disaster:	June 14th through June 21st of 2012
Date of Federal Declaration:	July 6,2012
Type of Declaration:	Presidential Disaster Declaration for Public Assistance and Hazard Mitigation
Declaration#:	DR 4069
Authority For Funding:	Presidential Declaration of Major Disaster FEMA 4069-DR
Counties Eligible for Funding:	Aitkin, Carlton, Cass, Cook, Crow Wing, Dakota, Goodhue, Itasca, Kandiyohi, Lake, Meeker, Pine, Rice, Sibley, St. Louis, Fond du Lac Band of Lake Superior Chippewa, Grand Portage Band of Lake Superior Chippewa and Mille Lacs Band of Ojibwe.
Maximum Funding Available:	$10,400,000
Maximum Loan Amount:	$~~30,000~~ 40,000 per property[1]
Any specific federal/state mandated requirements, including but not limited to:	N/A
Additional Documents:	N/A
Any constraints on funding effective only for this disaster:	
Other:	~~N/A~~ The portion of Section 4.04 in the Quick Start Disaster Recovery Manual limiting borrowers to one Quick Start loan is modified to allow up to two Quick Start loans per borrower.

[1] The maximum loan amount may be exceeded on an as needed basis with prior approval from Minnesota Housing.

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AGENDA ITEM: 7.A
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Deer Ridge Townhomes – D5207

CONTACT: Ted Tulashie, 651-297-3119
ted.tulashie@state.mn

REQUEST:

☑ Approval ☑ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff has completed review of the development referenced below and recommends adoption of a motion selecting the development for further processing under the Low and Moderate Income Rental (LMIR) Program.

FISCAL IMPACT:
In the current Affordable Housing Plan (AHP), staff proposed and the Board allocated $110 million in new activity for the LMIR program, including $20 million from the Housing Investment Fund (Pool 2). Funding for this loan falls within the approved budgets and the loan will be made at an interest rate and on terms consistent with what is described in the AHP.

This LMIR loan will generate $55,829 in fee income (construction oversight fee and origination fee) as well as interest earnings which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Development Summary

Board Agenda Item: 7.A
Attachment: Development Summary

DEVELOPMENT SUMMARY
DEVELOPMENT:

				Dev#:	D5207
Name:	Deer Ridge Townhomes			App#:	M16410
Address:	1615, 1620, 1651, 1652, 1680 and 1683 45th Avenue East				
City:	Alexandria	County:	Douglas	Region:	WCMIF

MORTGAGOR:
Ownership Entity: Alexandria Housing LLLP

General Partner/Principals: D.W. Jones Inc./Skip Duchesneau
Alexandria Housing and Redevelopment Authority

DEVELOPMENT TEAM:

General Contractor:	To Be Determined
Architect:	Ringdahl Architects PA, Alexandria
Attorney:	Gammello, Qualley, Pearson & Mallak, PLLC, Baxter
Management Company:	D.W. Jones Management Inc, Walker
Service Provider:	N/A

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:
$ 776,577 LMIR First Mortgage

Funding Source:	Hsg Investment Fund(Pool 2)
Interest Rate:	4.75%
MIP Rate:	0.25%
Term (Years):	30
Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
2BR	1	1,359	$ 656	$ 683	$ 26,240
2BR	1	1,453	$ 656	$ 683	$ 26,240
2BR	6	1,359	$ 683	$ 683	$ 27,320
2BR	5	1,453	$ 683	$ 683	$ 27,320
3BR	2	1,637	$ 772	$ 789	$ 30,880
3BR	8	1,637	$ 789	$ 789	$ 31,560
3BR -EO	1	1,637			
TOTAL	24				

NOTES: *LMIR, in conjunction with Housing Tax Credits, encourages rents to be affordable to households at 50% area median income (AMI) with incomes up to 60% AMI.

Purpose:
DW Jones in collaboration with the Alexandria Housing and Redevelopment Authority (HRA) is proposing to construct a new 24 unit townhouse development on a vacant parcel of land located on the outskirts of Alexandria, MN. The development will consist of two- and three-bedroom units with attached garages contained in six buildings. The immediate area is primed for new development due to the construction of

a new public school nearby. The proposed site, currently owned by the HRA is immediately adjacent to a new, large senior housing development and additional development is expected to follow. Over time, this portion of the city should continue to develop.

Target Population:
The targeted population will include families with children, single head of households with children, individual/families of color and physically disabled households earning 50-60% of area median income. These households will earn approximately $26,000 - $31,000 per year. The residents may work for area employers including Douglas County Hospital, Alexandria School District, and Douglas Machine, Tastefully Simple, Knute Nelson Memorial Home and local retailers such as K-mart, Menards, and Pete's County Market.

Project Feasibility:
The development is financially feasible as proposed but required some adjustments to reflect the Agency's underwriting parameters which resulted in a higher amortizing mortgage and a lower financing gap. The syndicator also increased its price for the tax credits yielding additional equity. The site is currently controlled through a purchase agreement, at an acquisition price supported by an appraisal dated May 23, 2011. It is within three miles of numerous schools, libraries, day care centers, grocery stores, retail stores, drug stores, banks, and public services. The site provides easy accessibility to major regional roadways. The City is in support of this development, as evidenced by its Tax Increment Financing contribution and its willingness to waive up to 25 percent of its sewer and water connection (SAC/WAC) fees. The development is also receiving an in-kind donation from Alexandria Light and Power in the form of energy rebates. In addition to the recommended LMIR first mortgage, this development has been awarded 2012 Tax Credits off the wait-list.

Development Team Capacity:
D. W. Jones Inc. and D. W. Jones Management Inc. were established in 1976 and 1989 respectively. The entities have significant experience developing, owning and managing this type of housing development. The developer entity and the architect have recently successfully completed similar developments. This team has proved to be capable and competent. Minnesota Housing's experience with D. W. Jones has been positive.

Physical and Technical Review:
The architect, Ringdahl Architects, PA has the capacity to complete this project. The contractor is yet to be selected. The proposed concept building design appears acceptable; however, some site and design improvements such as proposed playground location and method of satisfying green design will be encouraged. The proposed construction costs of $126,980 per unit appear to be reasonable.
The development's total development cost of $166,865 per unit is within 25 percent of the Predictive Model.

Market Feasibility:
The market study indicates that this development is located in an area experiencing both household and job growth. It also concluded that all 24 total units could be completely absorbed into the market within four to six months of completion, contingent upon proper marketing and pre-leasing.

Supportive Housing:
N/A

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$4,004,760		$166,865
Acquisition or Refinance Cost	$145,000		$6,042
Gross Construction Cost	$3,169,408		$132,059
Soft Costs (excluding Reserves)	$688,133		$28,672
Non-Mortgageable Costs (excluding Reserves)	$2,219		$92
Reserves	$0		$0
Total LMIR Mortgage (Including 4% DCE)	$776,577		$32,357
First Mortgage Loan-to-Cost Ratio		19%	
Agency Deferred Loan Sources			
Total Agency Sources	$776,577		$32,357
Total Loan-to-Cost Ratio		19%	
Other Non-Agency Sources			
Syndication Proceeds*	$3,228,183		$134,508
Total Non-Agency Sources	$3,228,183		$134,508

*Committed funds

AGENDA ITEM: 7.B
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Selection of Awardees for the Rehabilitation of Public Housing under the Publicly Owned Housing Program (POHP)

CONTACT: Jonathan Stanley, 651-284-3178
jonathan.a.stanley@state.mn.us

Bob Porter, 651-297-5142
bob.porter@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff has completed the underwriting and technical review of proposals for General Obligation (G.O.) Bond proceeds as administered under the Publicly Owned Housing Program and recommends the adoption of a Resolution authorizing the issuance of Loan Commitments in the collective amount of $5,509,000, subject to further review of proposals and per the terms and conditions of the Agency's loan documents.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

Background
The 2012 Minnesota Legislature appropriated $5.5 million in G.O. bond proceeds to Minnesota Housing for the rehabilitation of public housing. The appropriation was part of the Governor's capital investment budget. The public housing stock is aging, and in recent years the federal government has inadequately funded the capital repair and replacement needs of public housing properties. Under this appropriation, "Public Housing" means housing for low-income persons and households financed by the federal government and owned and operated by cities and counties. By law, priority must be given among comparable proposals to those that maximize federal or local resources, and applicants must have a HUD Real Estate Assessment Center (REAC) Public Housing Assessment System (PHAS) rating of "standard" or above. Staff recommends awards in an aggregate amount of $5,509,000, with the additional $9,000 coming from de-obligated bond proceeds from previous appropriations.

The Agency received 20 applications totaling $9.2 million, 6 from the Metro and 14 from Greater Minnesota. Three proposals were deemed ineligible due to a substandard PHAS rating. Agency underwriting, program and architectural staff reviewed the remaining 17 proposals for:

- Consistency with the mission and strategic goals of the agency;
- Compliance with statutes and program rules;
- Consistency with Agency and program priorities;
- Overall project feasibility;
- Demonstration of financial need; and
- Organizational capacity

Additional priority was given to proposals that address critical health and safety improvements and/or improvements for conservation of energy, water, or other resource conservation measures that will lower operating costs. The recommended proposals will:

- Significantly leverage non-state financial contributions to public housing:
  - The fourteen recommended proposals will leverage Minnesota Housing funding with aggregate federal and local resources in the amount of approximately $3,000,000.
- Most proposals address health and safety issues and improve energy and water conservation:
  - Eight proposals involve tightening of building envelopes
  - Five include ventilation system upgrades
  - Four involve replacement or major repair of plumbing systems
  - Three include abatement or removal of lead-based paint or asbestos
  - Two involve elevator code compliance
  - Three will improve accessibility for the disabled
  - Five include energy efficiency upgrades to mechanical systems
  - Four address assorted code deficiencies
  - Twelve involve energy and resource conservation measures
  - Four include significant roof repair or replacement

Applications were ranked based on the degree to which they met program criteria, including leverage, cost reasonableness, and the type of proposed improvements. The amounts of several requests were reduced in cases where projects could feasibly be completed in phases, in order to allow for the funding of more proposals with the limited funds available. Three eligible applicants (Dakota County CDA, Brainerd HRA, and St. Louis Park HRA) were not selected for funding because they were the lowest ranking proposals and sufficient funds were not available to fund all proposals at levels that represented feasible projects.

In summary, the 14 recommended proposals will assist and stabilize approximately 950 units of public housing across the State, providing crucial support to an important and often overlooked segment of the State's affordable stock.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300 St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION APPROVING MORTGAGE COMMITMENTS

PUBLICLY OWNED HOUSING PROGRAM (POHP)

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications to provide loans for public housing developments occupied by persons and families of low and moderate income from 17 eligible applicants, has reviewed the applications and recommends funding for improvements proposed in the applications~~,~~ as follows:

St. Paul PHA	$825,000
Staples HRA	$825,000
Minneapolis PHA	$600,000
Duluth HRA	$500,000
South St. Paul HRA	$454,000
Glenwood HRA	$450,000
Red Wing HRA	$405,000
St. Cloud HRA	$350,000
Virginia HRA	$275,000
Hibbing HRA	$220,000
Southeastern MN Multi-County HRA (SEMMCHRA)	$192,000
Sleepy Eye HRA	$172,000
Scott County CDA	$162,000
Hutchinson HRA	$79,000
Total	$5,509,000

WHEREAS, Agency staff has determined that such applicants are eligible applicants under the Agency's rules; that such loans are not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the rehabilitation of the developments will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, Agency staff has reviewed the applications and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies; and

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue commitments to provide loans from General Obligation Bond proceeds to said applicants, upon the following terms and conditions:

1. The initial closing of such loans and entering into loan agreements shall be on or before July 15, 2014; and

2. The amount of each loan shall not exceed those as detailed above; and

3. Agency staff shall review and approve the Mortgagors; and

4. The loans are to be made using General Obligation bond proceeds.

5. The commitment is subject to the ability of the Agency or Minnesota Management and Budget, as necessary, to sell bonds on terms and conditions, and in time and manner acceptable to the Agency or Minnesota Management and Budget; and

6. The interest rate on the loans shall be 0 percent per annum; and

7. The loan terms shall be 20 years at which time the loans may be forgiven; and

8. The Mortgagors shall execute Agency Mortgage Loan Commitments with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

9. The Mortgagors, and such other parties as Agency staff in their sole discretion deem necessary shall execute all such documents relating to said loans as Agency staff in their sole discretion deem necessary.

Adopted this 15th day of November, 2012.

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CHAIRMAN

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AGENDA ITEM: 8.A
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Agency Risk Profile

CONTACT: Will Thompson, 651-296-9813
will.thompson@state.mn.us

REQUEST:

☐ Approval ☑ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency faces a number of critical risks to achieving its objectives. The Agency Risk Profile is a component of implementing the Enterprise Risk Management (ERM) framework and is produced to demonstrate and communicate critical risk information to the board.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- Agency Risk Profile

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Agency Risk Profile

November 2012

Risk Management

Minnesota Housing Finance Agency

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Introduction

A risk profile is defined as a periodic documentation of the critical risks to an organization to achieving its stated objectives over a specified future time period. Critical risk is defined as the chance of something happening that would have a clear and direct impact on the achievement of Agency objectives.

The primary purpose for an Agency Risk Profile is to assist the Commissioner, Chief Risk Officer and management team in communicating risk related issues with the Board.

This risk profile was developed with input from seven members of the Risk Management Committee and their selected staff members. Staff was directed to complete individualized components of an online Agency Risk Profile which contained previously indentified critical sources of risks to the Agency. For selected risk sources staff was asked to assess and provide:

- The impact to the Agency should these identified risks occur
- The likelihood of these risks occurring
- The strength of controls in place to prevent, or lessen the impact, of the identified risks
- Additional comments regarding the identified risks.

Risk source assessments are intended to focus on critical risks confronting the Agency that may impact the Agency's ability to achieve the goals of its 2013 – 2015 Strategic Plan and/or 2013 Affordable Housing Plan.

Risk sources were assessed using risk impact, likelihood, and assurance definitions which are contained in Appendix A.

A Risk Level for each critical risk source was determined according to a Risk Assessment Matrix which is contained in Appendix B.

Agency Risk Profile

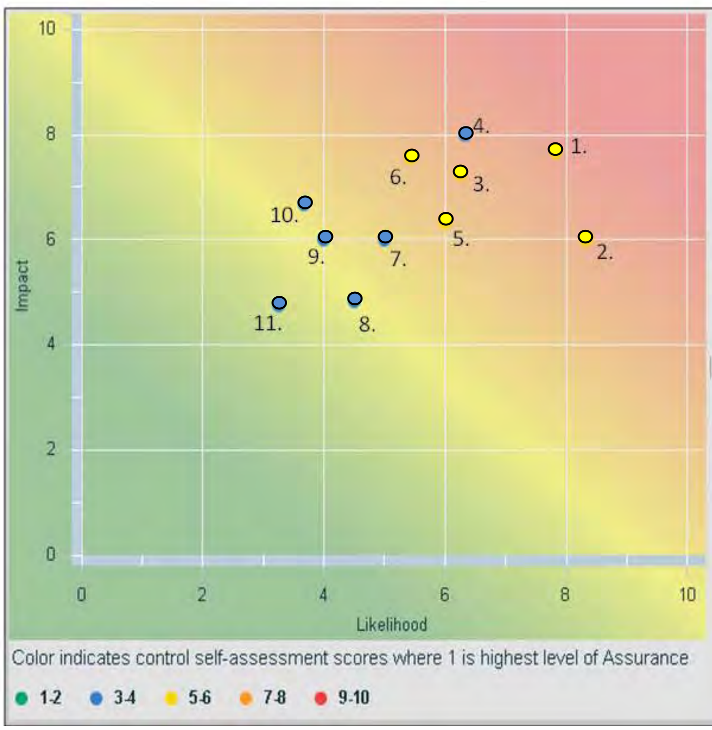
The Agency Risk Profile is comprised of an Executive Summary, Aggregate Results Heat Map, Risk Profile Matrix and Risk Source Narratives.

Executive Summary

The current dynamic business environment and market uncertainty will continue to require ongoing, rapid changes to the Agency's business model. The Agency's work environment consists of volatile and complex housing and finance markets, numerous legal and regulatory rules, and involves many counterparties. It is highly likely that the capital markets will remain volatile for at least the next several years as the Federal Reserve continues to manage the US economy out of recession and world economies continue to struggle. There is widespread recognition that the Agency is evolving as an organization. Enterprise Risk Management is evolving with the Agency to provide more detailed risk assessment reporting. The addition of inherent and residual indexes is designed to provide greater delineation among the identified critical risk sources. Plotting the results of risk assessments to heat map graphs will enable better tracking of trends of critical risks over time.

Aggregate Results Heat Map

Aggregate results of critical risk source assessments have been plotted to a heat map graph, shown below.



Risk Source	Inherent Index	Residual Index
1. Information Technology	60	344
2. Interest Rates	52	298
3. Counterparties	45	267
4. Bond Markets	51	238
5. Federal Resources	38	192
6. Operational Capacity	40	191
7. State Appropriations	30	120
8. Compliance	22	102
9. Loan Performance	24	96
10. Business Continuity	26	87
11. Planning and Execution	18	49

Heat maps are a graphical representation of data where the individual values contained in a matrix are represented as colors. The heat map is intended to visually convey which risk sources pose the greatest challenges to the achievement of Agency objectives. Generally, assessed sources of risk that are plotted in the upper right quadrant of the grid have a greater impact and a higher likelihood of occurrence. The color of the plotted data point for each risk source indicates the level of assurance staff has in existing controls and mitigation strategies.

An Inherent Index score is calculated by multiplying the assessed impact by the likelihood. The Inherent Index is designed to measure the risk that an activity would pose if no controls or other mitigating factors were in place.

The Residual Index measures the risk that remains after controls and mitigation activities are taken into account. A Residual Index score is calculated by multiplying the assessed impact by likelihood by level of Assurance. Residual Index tiering has been incorporated into the Risk Assessment Matrix (Appendix B) to better delineate risk levels.

Additional information regarding heat maps and the calculation of an Inherent and Residual Indexes is contained in Appendix C.

Risk Profile Matrix

Updates to the Risk Profile Matrix include risks that have been added or removed, trends and previous ratings for comparison.

The Risk Profile has been arranged into a "Top Eleven" format and lists first the higher level critical risk sources as determined by scoring on the Risk Assessment Matrix (Appendix B).

The Risk Profile Matrix lists the 10 previously identified critical sources of risk, plus one additional source – Loan Performance. The matrix lists the risk sources, from the highest to lowest risk level, as determined by the Residual Index score.

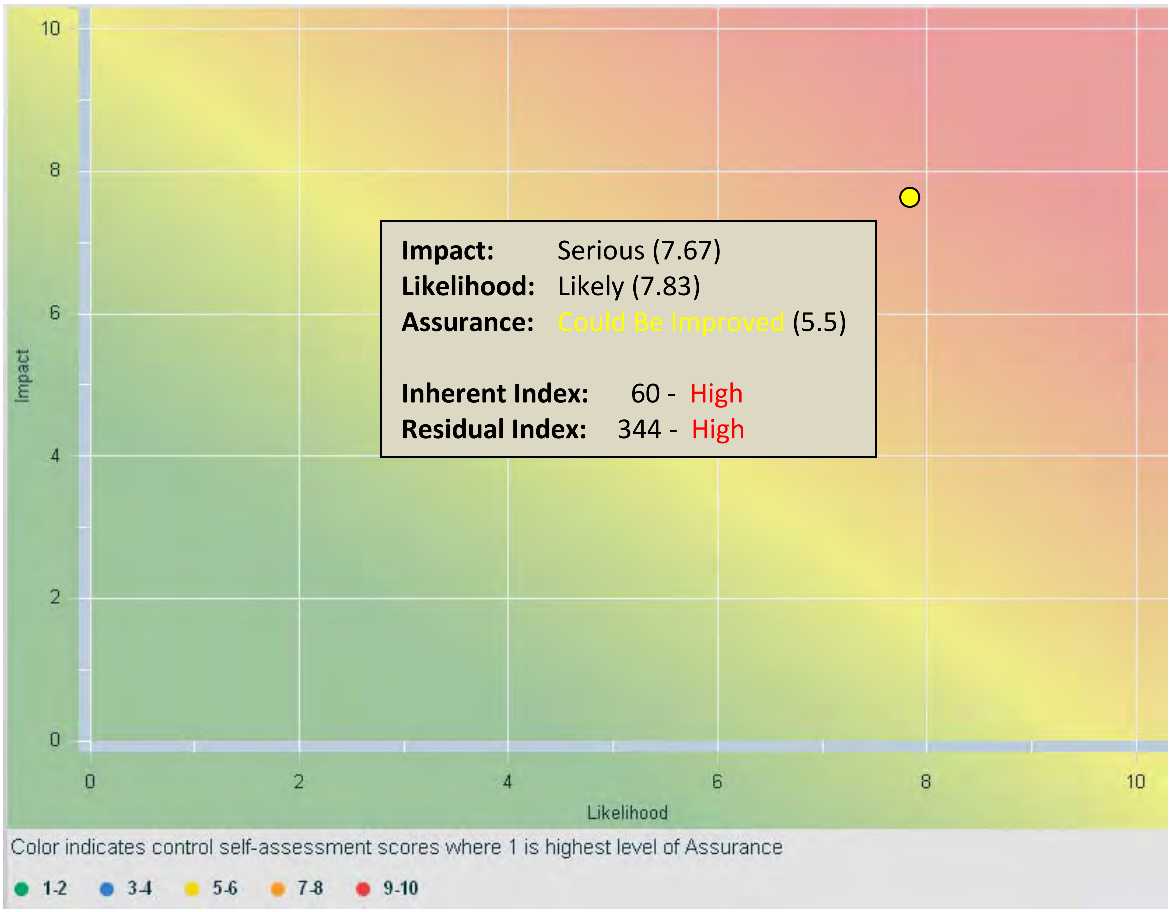
Risk Profile Matrix		
Risk Source	**Current Risk Level**	**2011 Risk Level**
Information Technology	High	High
Interest Rates	High	High
Counterparties	High	Moderate
Bond Markets	High	High
Federal Resources	Moderate	Moderate
Operational Capacity	Moderate	Moderate
State Appropriations	Moderate	Moderate
Compliance	Moderate	Moderate
Loan Performance	Low	Not Indentified
Business Continuity	Low	High
Planning and Execution	Low	Moderate

Risk Source Narratives

The Risk Source Narratives describe the source of each risk, the objectives impacted by that risk and any mitigating actions that are in place or planned.

Information Technology

High Risk Level



Information Technology (IT) is assessed as a high risk source; which is unchanged from the previous assessment. The Agency's work environment consists of volatile and complex housing and finance markets, numerous legal and regulatory rules, and involves many counterparties. Each aspect of this environment requires information technology systems to make them work effectively. Systems in place today have been effective and have passed risk, audit and compliance standards tested in our financial audit. The need to adapt quickly, increasing compliance requirements, and sophistication in the type of funding sources used to fund Agency programs underscore the need for adequate technology to access potential new sources of capital while lessening the likelihood of compliance failures. The Agency retained control of critical IT resources with an exemption from statewide consolidation of information technology systems under the Office of Enterprise Technology (OET); however, high levels of risk to implementing efficient and effective IT systems remain. Identified risks include:

- Business line and BTS personnel must develop deeper understanding of the business requirements to determine the most effective technology solutions.

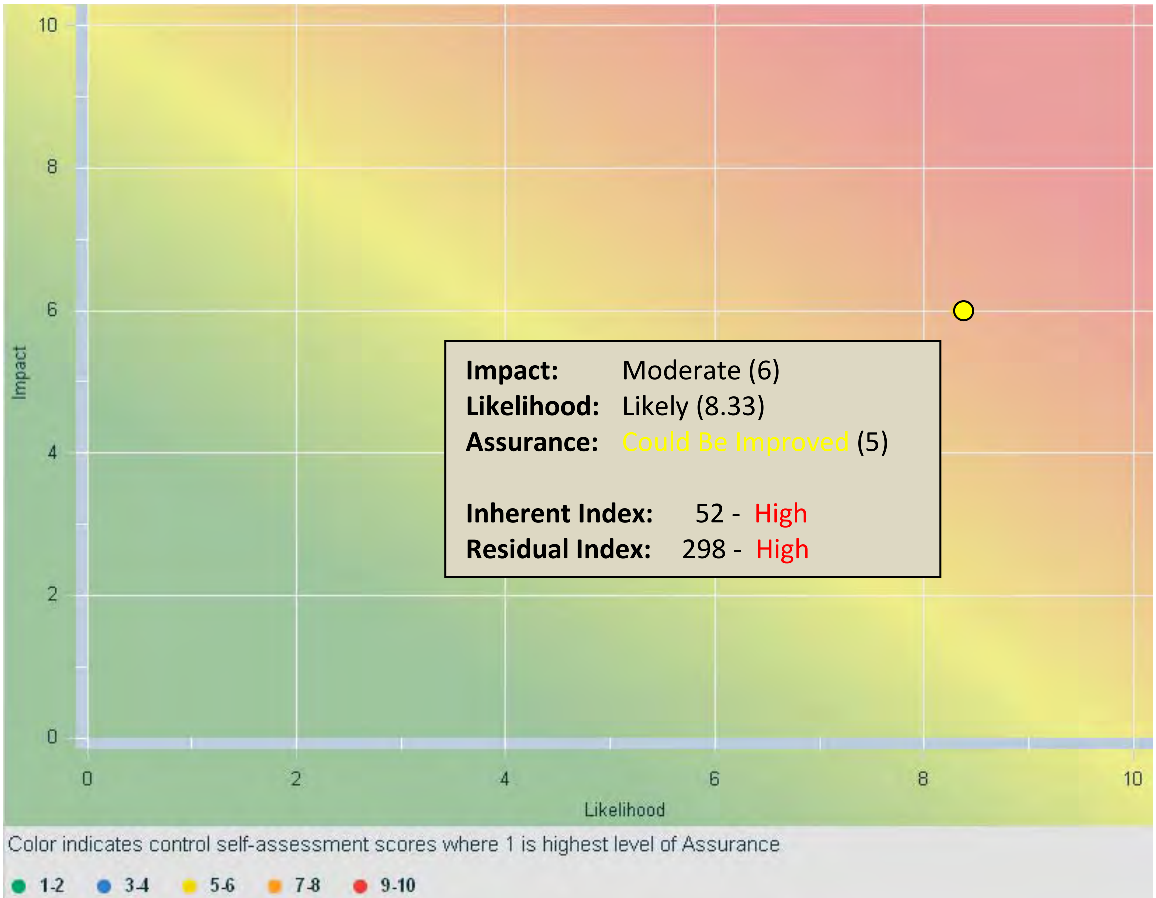
- Communications between Business line and BTS personnel must be enhanced to implement the most effective technology solutions.
- Strong project management practices and realistic timelines are needed to successfully implement technology solutions.
- Adequate staff resources both in BTS and the business lines are needed to support Agency information technology systems projects.

There is a visible executive leadership for technology and business process improvements and increased staff communication regarding information technology systems projects.

Effectiveness of Control / Mitigation Activities:
The Agency increased both its Business Technology Support (BTS) staffing and operations budget. Technology improvements are identified as a priority in the 2013 – 2015 Strategic Plan. BTS developed a Technology Roadmap which contains 150 projects with five major projects selected for initial completion within the next 18 months. The Agency developed a Business Technology Investment Committee (BTIC) comprised of the Commissioner, Deputy Commissioner, Chief Financial Officer (CFO) and Chief Information Officer (CIO) to prioritize and coordinate technology investments. A re-established Operations Committee, which is comprised of the Deputy Commissioner, CIO and Director of Operations, is tasked to resolve administrative and operational issues. These recent innovations in the Agency's approach to technology systems hold promise. However, the assessed level of assurance for IT would indicate that additional mitigating actions may be required in the future.

Interest Rates

High Risk Level



Interest Rates were assessed as a high risk source; which is unchanged from the previous assessment. Interest rate management is a key activity at Minnesota Housing because the Agency's large portfolio of assets is the primary revenue-generation tool. Continued volatility of interest rates is highly likely in the current economic environment. Interest rate volatility is out of the Agency's control; however, depending on the interest rate environment, the Agency encounters both challenges and opportunities. Interest rates in the general economy can at any time rise (high rate environment) or fall (low rate environment). Each scenario presents unique challenges to the Agency's business model. The Agency is currently in a low rate environment. A low interest rate environment, which benefits borrowers, is stressful to the Agency's financial results. Low rate environments generally cause high rates of mortgage loan prepayments, challenging the Agency to produce enough new lending to repopulate the balance sheet with assets at acceptable yield levels. In this environment, Agency interest rates are often very similar to rates in the conventional market, so loan production is maintained partially with use of scarce mortgage enhancements (i.e. deferred loans and grants). Assets held as cash in low rate environments produce diminished investment income, including periods of negative arbitrage when prepayments received are temporarily invested below bond yield until bonds can be repaid with the prepayments. Low rates also diminish earnings on committed but undisbursed state appropriations, resulting in less potential for overhead recovery payments to cover actual costs. Short term volatility in interest rates is also a risk because there is a time differential between when the Agency commits to purchase a loan and when the loan is delivered to and financed by the Agency. If interest rates rise dramatically in that time period, the Agency's anticipated profitability can be greatly reduced, eliminated or turned into a loss. While interest rate risks are currently monitored in an effective manner, the anticipated increase in packaging loans for sale in the securitization market will increase the volume of loans that are subject to interest rate movements.

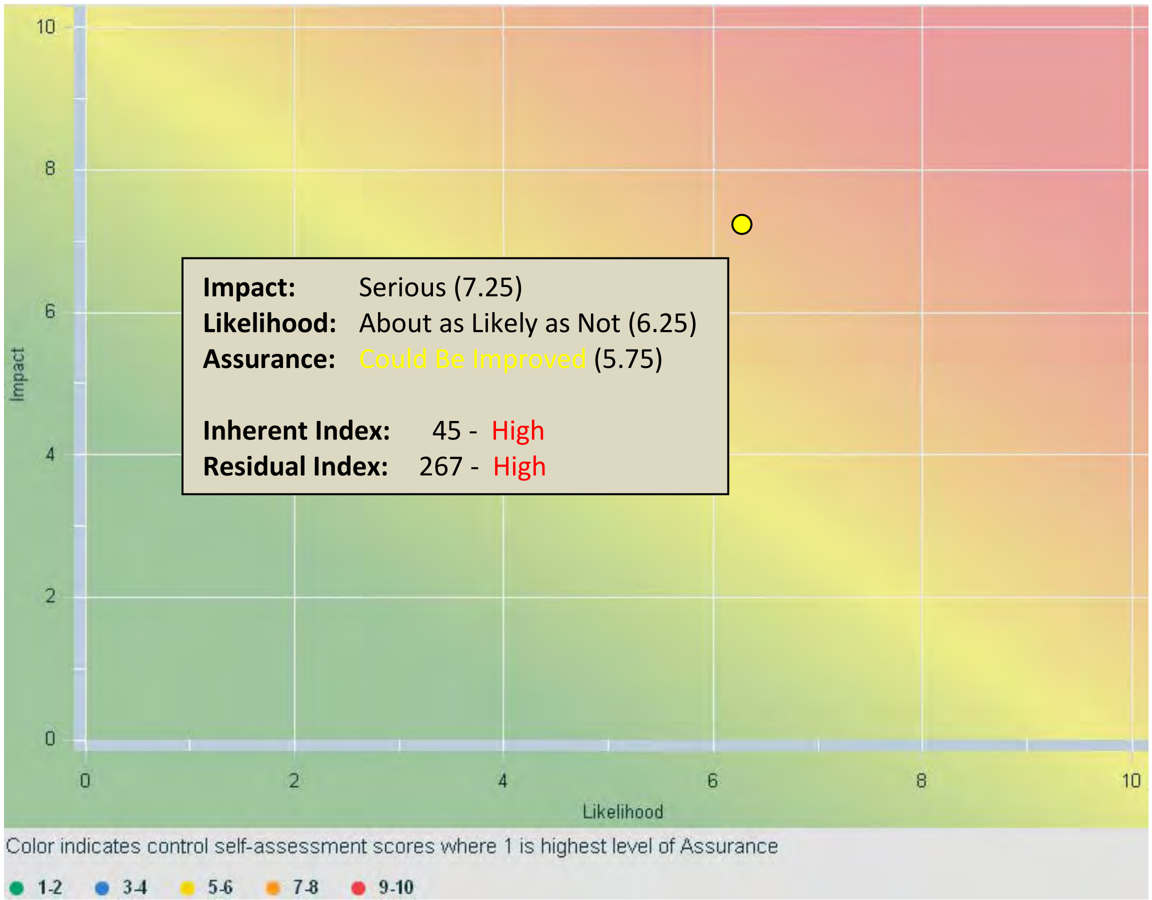
Effectiveness of Control / Mitigation Activities:
Several aspects of interest rate management require careful management to affect the desired long-term impacts. These aspects include:

- Maximizing interest rate spread on bonds
- Hedging exposure to variable rate debt
- Setting program interest rates in a market sensitive manner
- Loan warehousing
- Effective loan pipeline management

Additionally, technically competent and experienced Agency staff has the ability to take advantage of short-term opportunities in a low or high rate environment while ensuring long-term financial viability due to continuous discipline and sound ethical decision-making skills at all levels of the Agency.

Counterparties

High Risk Level



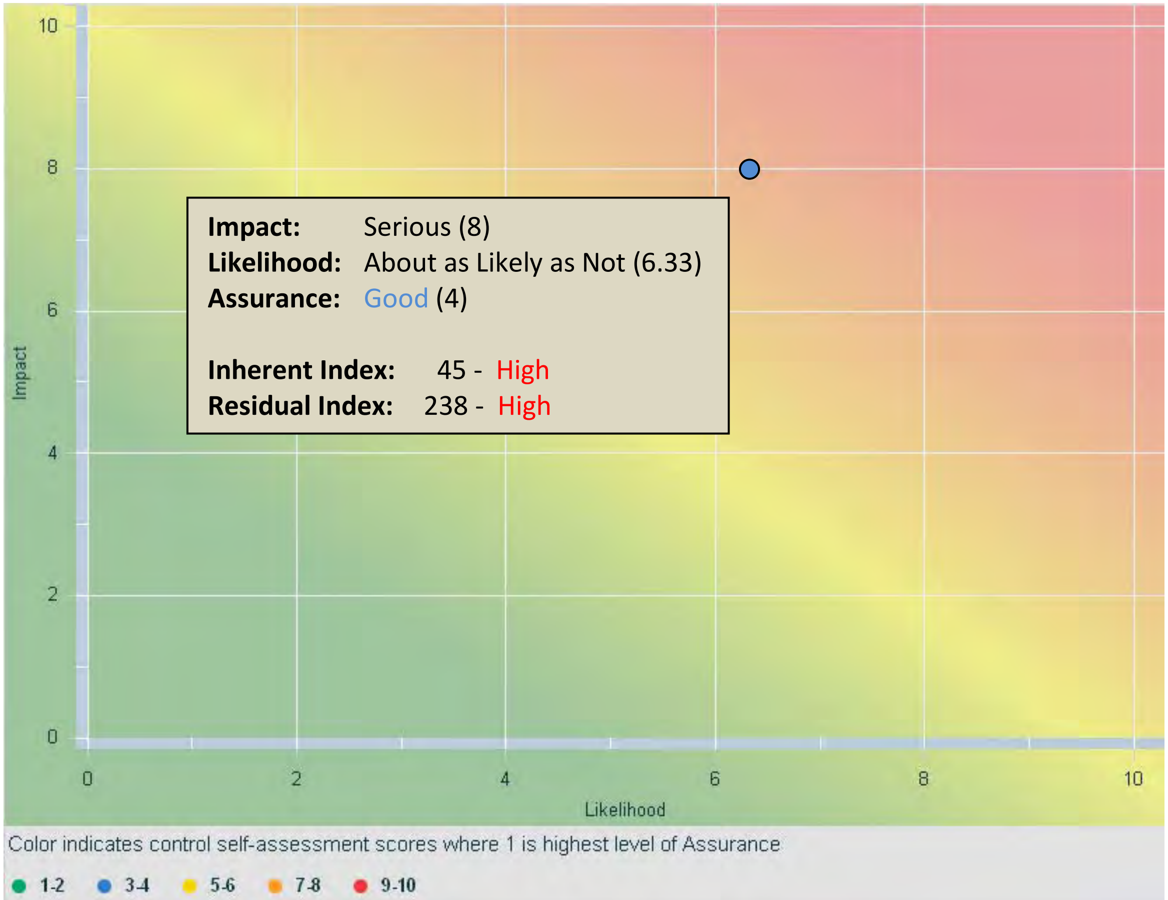
Counterparties are assessed as a high risk source; which is an increase to the moderate assessed risk level from the previous assessment. Counterparties are vital to the Agency accomplishing its strategic and affordable housing plans. Counterparties include Government-Sponsored Enterprises (GSEs), Credit Rating Agencies, Capital Markets participants, Lenders, Guaranteed Investment Contract (GIC) Providers, Brokers, Realtors, Grantees, Sub-Grantees, Vendors and Borrowers. The likelihood of disruptions to Agency activities by counterparties is recognized as a concern. The fates of GSEs remain uncertain. Agency relationships with lenders impact its ability to conduct and attract new businesses. Complex policies, processes and deadlines in working with state contracted vendors increase costs. Lack of competition at the master servicer level leaves the Agency vulnerable in terms of influencing program policies and protocols. Nonprofit and government program administratorscontinue to find it difficult to raise capital to fund operations and services in the current economic environment.

Effectiveness of Control / Mitigation Activities:

Counterparty risk is addressed on an ongoing basis through strengthening relationships with sole source providers and developing alternative processes when necessary. The Agency can comment on GSE's fate through its membership in the National Council of State Housing Agencies (NCSHA); however it cannot control the outcome. The Agency continues to work with lenders to better understand process, program and technological needs. The Agency plans to explore becoming a Fannie Mae and Ginnie Mae seller/servicer to evaluate operating under a sub-servicer structure.

Bond Markets

High Risk Level



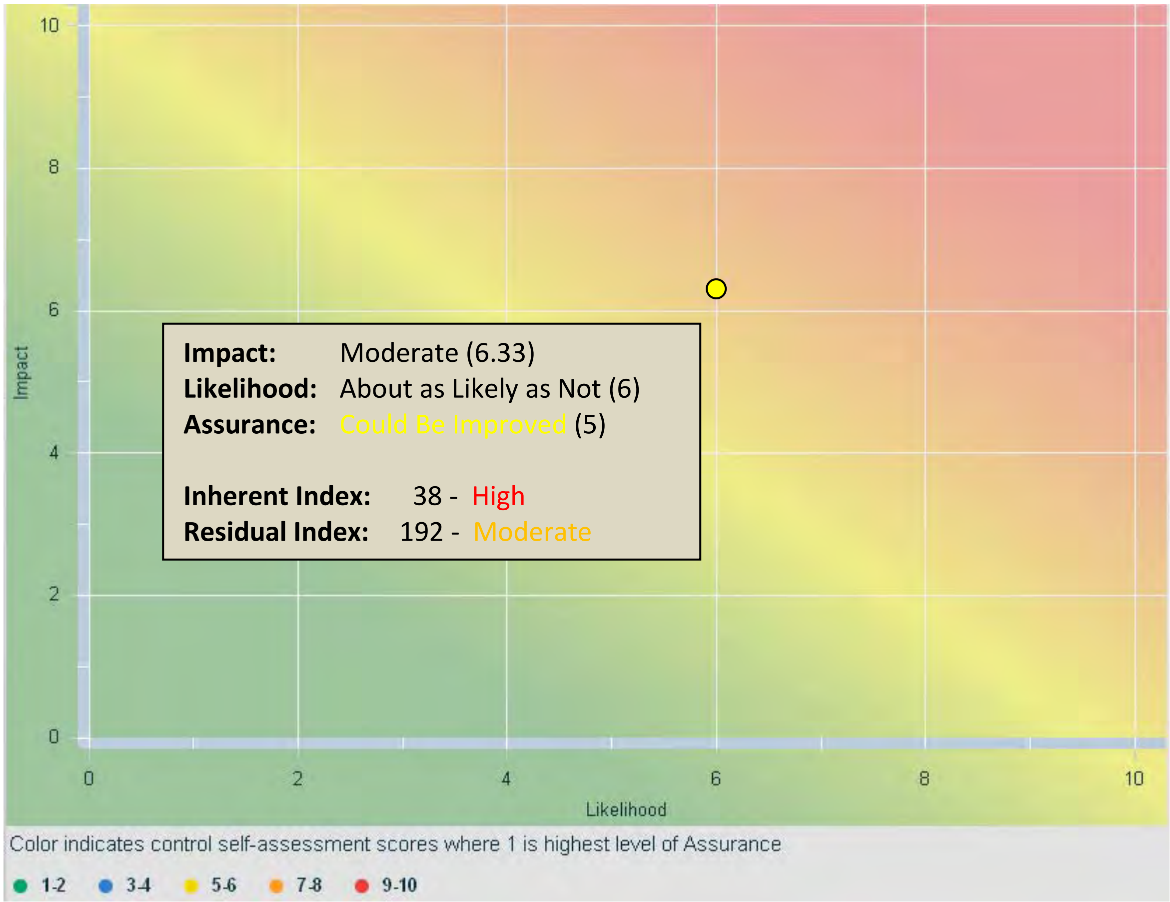
Bond Markets are assessed as a high risk source; which is unchanged from the previous assessment. Volatility in the tax-exempt bond market could restrict the agency's ability to effectively utilize bonds as the primary capital source for funding single family and multifamily mortgages. Additionally, turmoil in the capital markets may cause difficulty in raising capital at rates that allow the Agency to re-loan the proceeds at competitive rates and still earn sufficient spread to maintain the Agency's strong financial position. The Agency relies on the capital markets to fund its largest and most profitable programs.

Effectiveness of Control / Mitigation Activities:

The market remains volatile by any measure and while there is nothing that the Agency can do to mitigate the volatility of the market there is a technically competent and experienced finance team in place. The Agency recently developed a new financing mechanism, Homeownership Finance Bonds, 2012 / Series A & B that should allow for continuous access to the bond market at workable levels. The Agency is also working on a process which provides the ability to sell off loan production in the To Be Announced (TBA) market without having to sell bonds if that proves to be a more attractive financing alternative. TBA is a term used to describe a forward mortgage-backed securities trade. Pass-through securities issued by Freddie Mac, Fannie Mae and Ginnie Mae trade in the TBA market. The term TBA is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are "to be announced" 48 hours prior to the established trade settlement date.

Federal Resources

Moderate Risk Level



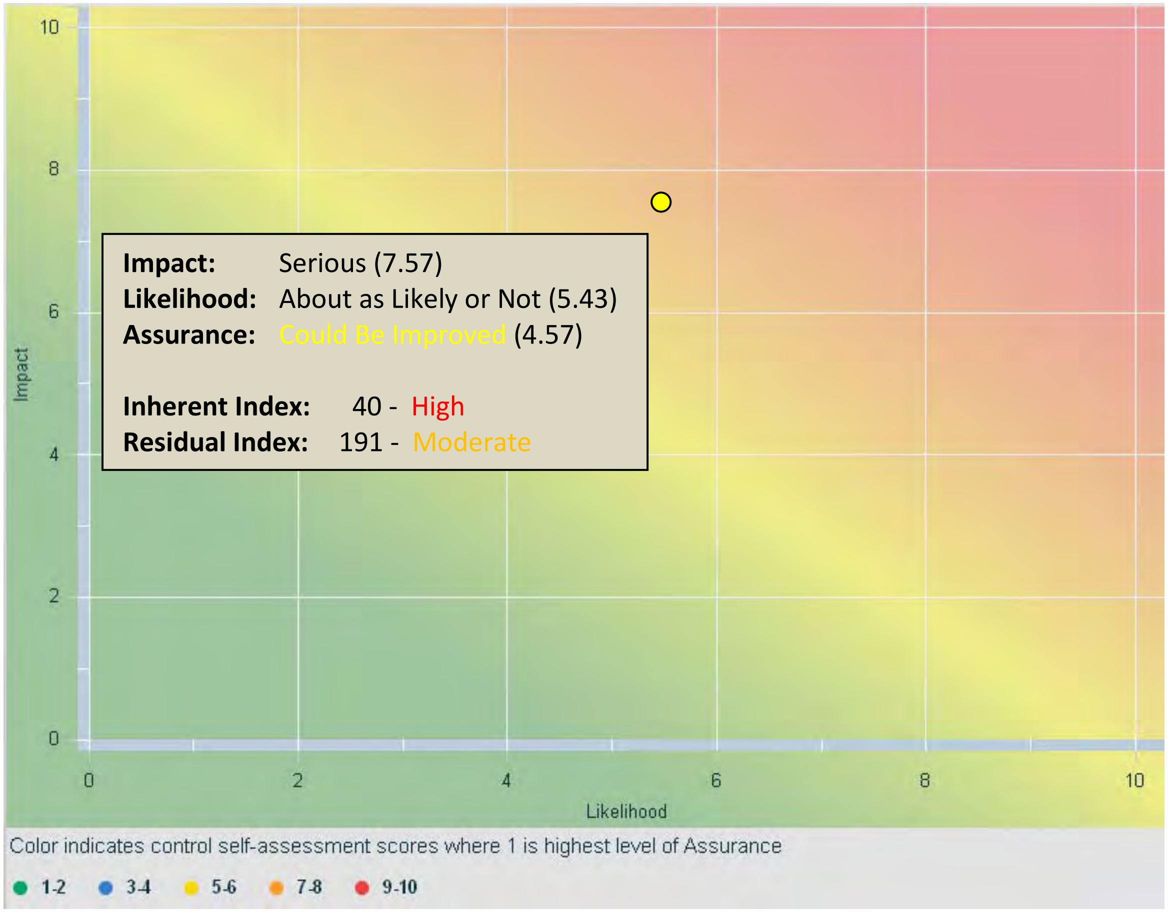
Federal Resources are assessed as a moderate risk source; which is unchanged from the previous assessment. A critical source of funding for a number of Agency programs; diminishing federal resources are an Agency-wide concern. Given the large size of federal budget deficits it is highly likely that there will be continuing pressures to reduce federal resources for housing. A reduction will likely mean that the Agency must reduce the level of activity that it is able to fund and could fail to achieve current program goals.

Effectiveness of Control / Mitigation Activities:

The Agency actively participates in federal policy initiatives through its national organization, the National Council of State Housing Agencies (NCSHA), and regularly meets with its congressional delegation to demonstrate the positive impact of programs funded with federal resources, but the complexity and severity of the budget deficit makes it a difficult risk source to mitigate. The Agency focused compliance efforts on programs with Federal funding to ensure funds are not lost due to non-compliance.

Operational Capacity

Moderate Risk Level



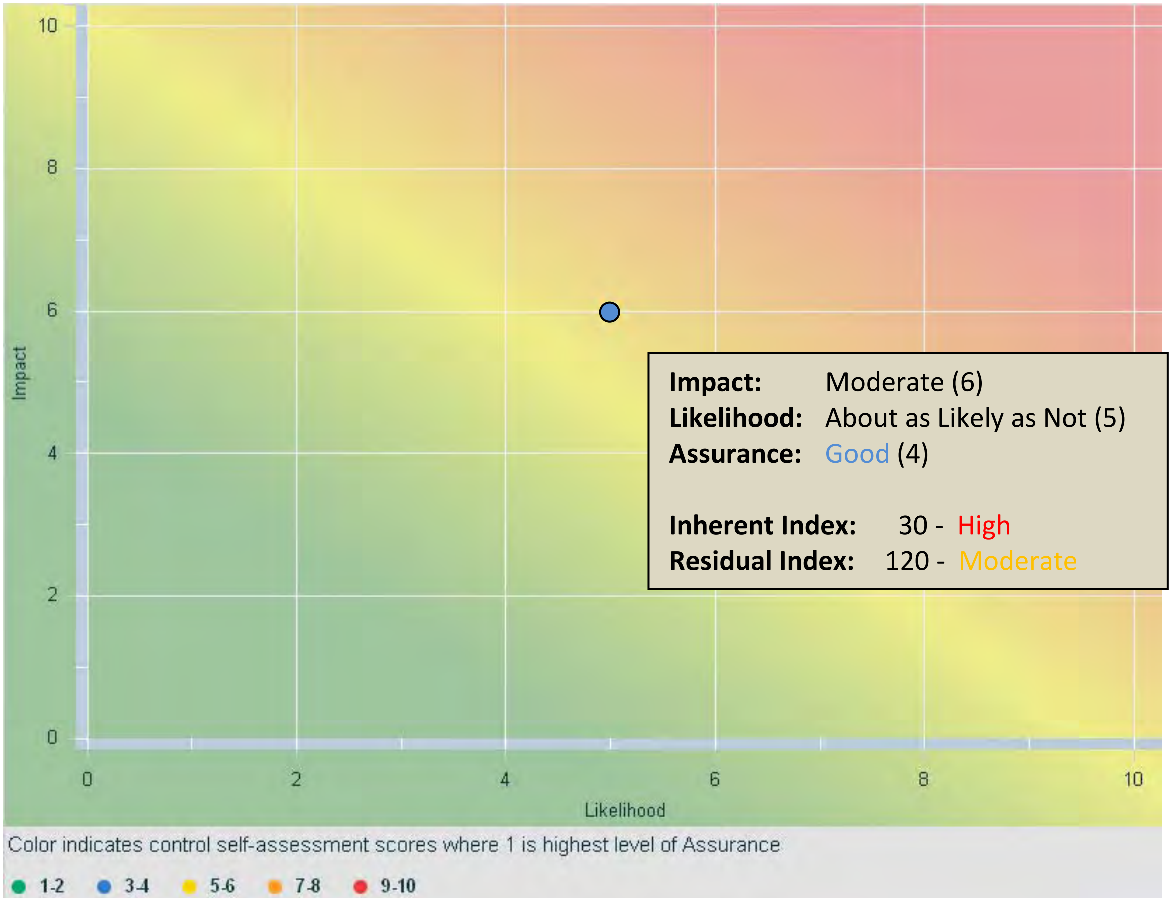
Operational Capacity is assessed as a moderate risk source; which is unchanged from the previous assessment. Having a strong organizational capacity is fundamental to the Agency's ability to implement effective strategies and fulfill its mission. Approximately 25% of current Agency personnel will retire in the next 5 years. State salaries are considered low and recruiting a pool of qualified replacements is important. In many areas of the Agency there is a perceived demand to do an immense amount of work with limited resources.

Effectiveness of Control / Mitigation Activities:

Strengthening organizational capacity is a priority of the Strategic Plan, specifically areas related to the work force planning, professional development, managing risks, and improving business processes and technology. The Agency added several Full Time Equivalents (FTE's) to the 2013 operating budget. The Agency has completed an inventory of the staff professional development needs and has budgeted to provide training to meet those needs. The Agency is making arrangements for staff training in the areas of computer training, general business skills, (i.e., effective presentations, writing, negotiations, project management), and federal contract compliance training. The Agency has enhanced its recruiting and on-boarding efforts. The Agency is undertaking a Compensation Study and as part of that study updated 55 current job descriptions. An employee engagement survey is routinely conducted and findings acted upon.

State Appropriations

Moderate Risk Level



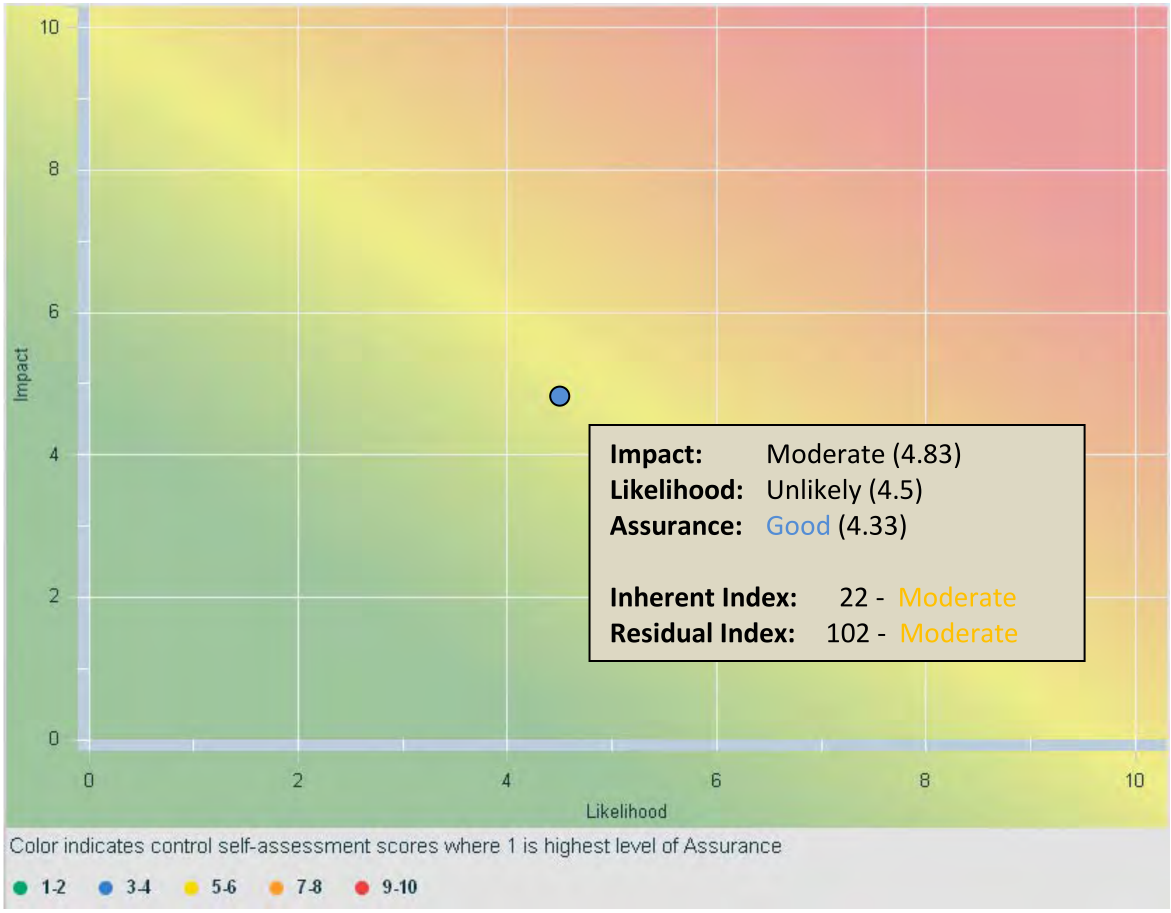
State Appropriations are assessed as a moderate risk source; which is unchanged from the previous assessment. Diminishing state appropriations will likely result in reductions in program activity and may require that some current activities be reduced or eliminated. State resources are critically important for funding certain activities, especially the Housing Trust Fund (HTF) which is used for on-going rental assistance. It is likely that the state will face a budget deficit next year, although considerably smaller than in 2011. The Agency's programs have continued to enjoy broad bipartisan support, but some cuts are likely if budget deficits continue.

Effectiveness of Control / Mitigation Activities:

The Agency has a strong policy team and is broadly supported by external advocacy groups. This is essential and helpful in mitigating potential cuts, but competing priorities from other parts of the state budget are always a threat. The Agency has some flexibility with Pool 3 funds, but resources are limited.

Compliance

Moderate Risk Level

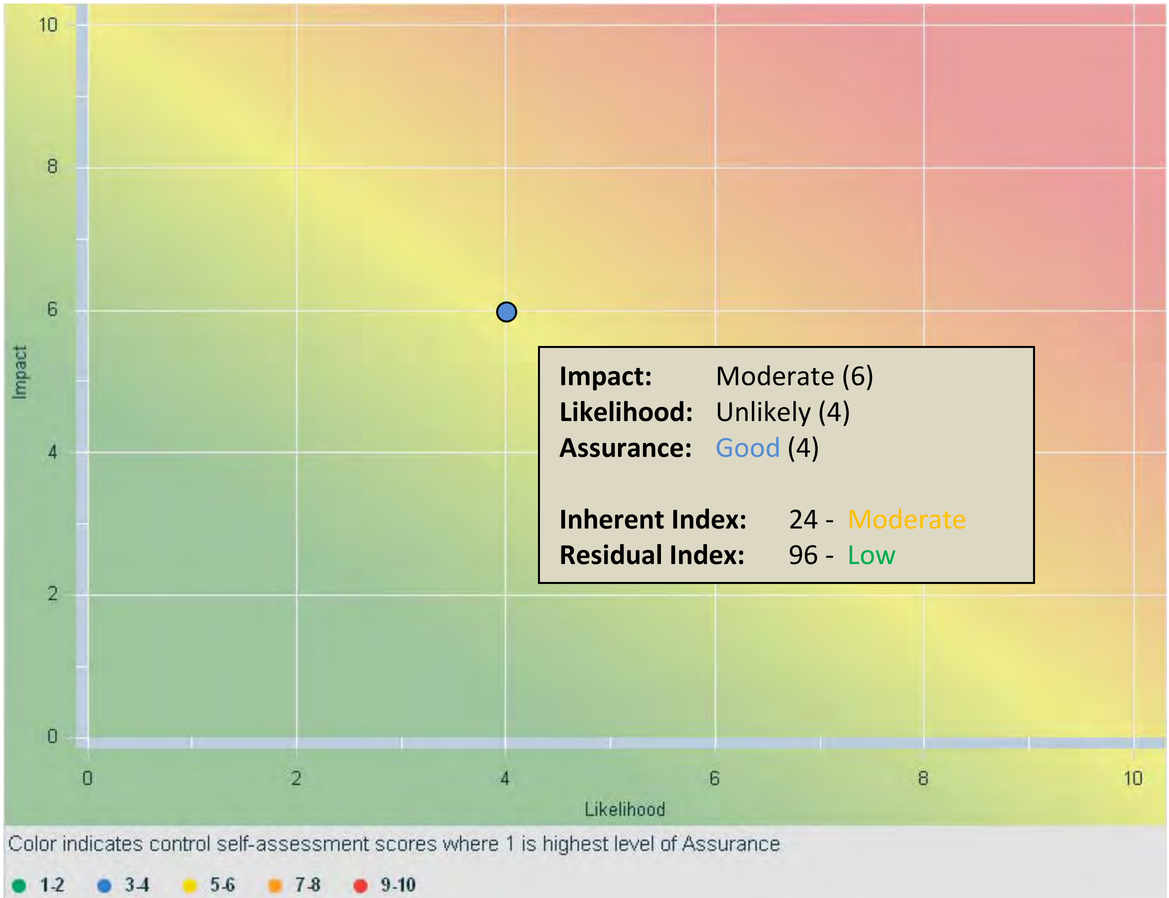


Compliance is assessed as a moderate risk source; which is unchanged from the previous assessment. Each funding source and program (old, existing, new) involves compliance requirements; some can be very complex and cumbersome. The Agency has staff that understands the compliance requirements, but there is some turnover and new and changing requirements are a reality. The business systems to help track and report on compliance are varied, not well-integrated, outdated, and not well known by a variety of staff.

Effectiveness of Control / Mitigation Activities:

The Agency regularly sends staff to compliance training and recently issued a solicitation for federal contract compliance training for up to 20 staff. The Agency has identified several compliance related projects as part of its technology roadmap. The Agency has selected a vendor and product for its enterprise content management system, which is the foundation for the new document management and records retention systems. Because there is a consistent negative financial risk to the Agency for federal non-compliance, staff has been allocated to provide the appropriate level of compliance. Conditions continue to improve, as demonstrated by no audit findings for the Performance-Based Contract Administration (PBCA) program audit and good audit results for The National Foreclosure Mitigation Counseling (NFMC) Program. The Agency had findings on HOME and Neighborhood Stabilization Program (NSP) audits which are being addressed.

Loan Performance
Low Risk Level

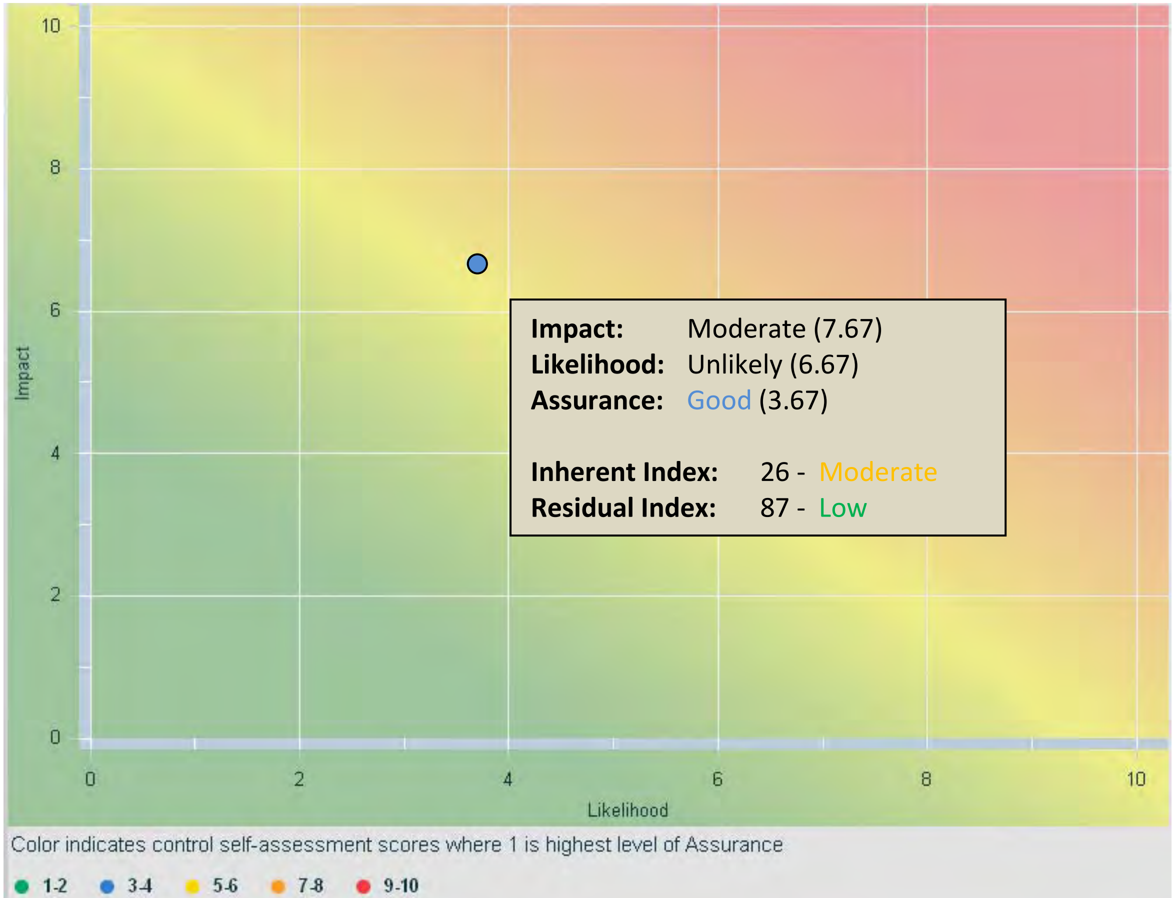


Loan Performance is assessed as a low risk source. This risk source was not previously assessed. The Agency has a single family whole loan portfolio in excess of $1.3 billion, a $350 million portfolio of largely uninsured multifamily first mortgage loans and over $100 million of uninsured second mortgages. The Agency is at risk of financial loss in the event of a severe downturn in the real estate markets. A sluggish economy and jobs losses continue to have a negative financial impact due to declining property values, the number of loans in default, and insolvency of lenders. The Agency continues to experience significant financial losses as a result of the collapse of the single family housing market. Losses resulting from the current economic downturn already cumulatively exceed $50 million.

Effectiveness of Control / Mitigation Activities:
Effective asset monitoring policies and procedures and competent staff are considered effective control activities.

Business Continuity

Low Risk Level



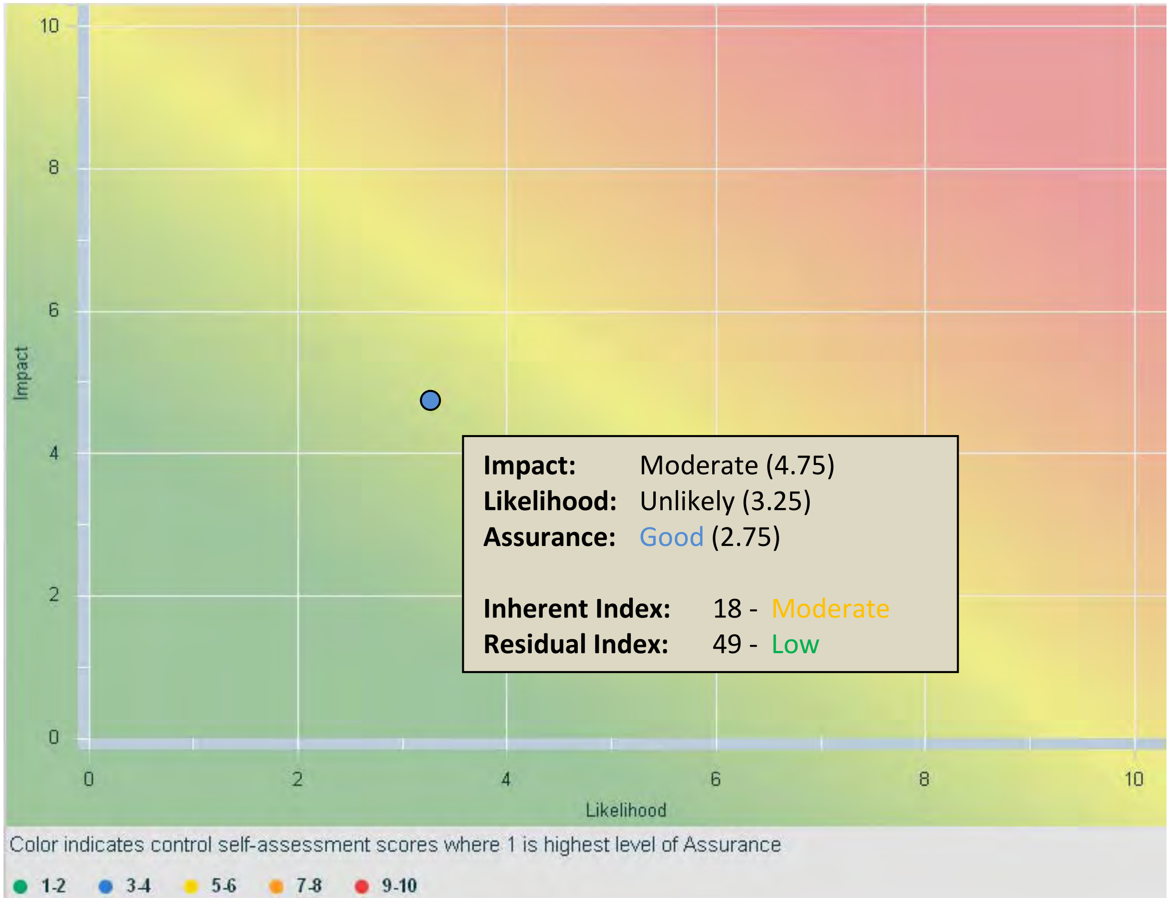
Business Continuity is assessed as a low risk source; which is a decrease to the previously assessed high risk level. Business Continuity is defined in this context as the activity performed by the Agency to ensure that critical business functions will be available to customers, suppliers, regulators, and other entities that must have access to those functions. The Agency has a Continuity of Operations Plan and a designated Continuity of Operations (COOP) Manager. However, the Plan is not well known by many within the Agency.

Effectiveness of Control / Mitigation Activities:

There is a great deal of information regarding different types of business continuity planning documents, but detailed updating or review of the procedures is needed and is being addressed. There is a planned and audited disaster recovery plan that is tested on an annual basis.

Planning and Execution

Low Risk Level



Planning and Execution is assessed as a low risk source; which is a decrease to the previously assessed moderate risk level. Effective planning is vital to any organization, especially one that makes significant financial investments in various programmatic areas. The Agency has a Strategy Management Framework that includes a "family" of planning and reporting documents and processes. The Framework was refined during this past year. The "head of the family" is the 2013-2015 Strategic Plan which was adopted by the Board in June 2012. The plan was developed based on robust research and analyses of housing and finance market data, and an extensive external community and internal staff engagement. It includes the Agency's vision, mission, priorities and strategies. The Plan was well-received by many audiences. Shortly after the Strategic Plan was adopted, staff developed the 2013 Affordable Housing Plan, the one year business plan that implements the Strategic Plan. This, too, involved extensive data gathering and analyses and staff input. The Affordable Housing Plan includes funding by program area and estimated number of households assisted and units produced, as well as other work plan highlights. Divisional work plans are based on the Affordable Housing Plan and then individual work plans are developed to support divisional work plans. All plans are aligned with the Strategic Plan. Each plan has one or more corresponding reporting documents containing a variety of performance measures - Results Management Report, Super Report, Annual Assessment and Report, Quarterly Division Reports, Individual Performance Appraisals.

Effectiveness of Control / Mitigation Activities:
In the past year, each employee received both a current work plan and a performance appraisal. The Agency has several staff skilled in planning and a divisional team responsible for overseeing all of the Agency's planning and reporting work. Planning is well supported by the Senior Leadership Team, and a highly visible part of the organization. No additional mitigation is necessary at this time.

Appendix A

Risk Impact

Assess each risk factor according to the criteria below. Do not grant credit for existing controls or mitigating strategies. Do not consider how often the impact may occur. Instead, rate as if the factor manifests itself without controls one or more times. Only one criteria for an impact level need apply to assess at that level.

9 – 10 Major

- Negative impact on Net Assets – over $250 million
- Catastrophic impact on financial statements (e.g., critical contractual ratios are no longer met)
- Liability threats challenge the going concern status of the Agency
- Long-term impairment of critical functions makes the Agency vulnerable to mission failure
- Non-compliance with Federal / State law, statue, or rule
- Agency's Strategic Plan cannot be achieved
- Agency's Affordable Housing Plan cannot be achieved
- Identified issues are serious variations from the organization's values (e.g., Fraud, Conflict of Interest)
- Process owner has not completed an evaluation of segregation of duties for employees' assigned tasks
- Process generates unusual transactions
- Activities are very complex. Employee training to perform activities is lengthy. Judgment is critical in performance of activities and is mostly principles based.

7 – 8 Serious

- Negative impact on Net Assets – $100 million to $250 million
- Regulatory penalties are required
- Serious liability or lawsuit potential
- Financial ratings drastically revised
- Serious Long-term Agency brand (reputation) impairment
- Significant negative impact on ability to achieve strategic plan
- Significant negative impact on ability to achieve Affordable Housing Plan
- Issues significantly contrary to organizational values
- Process owner has evaluated employees' assigned duties within the process and determined that there are existing concerns related to incompatible duties.
- Process generates estimation transactions.
- Activities are very complex. Employee training to perform activities is lengthy. Judgment required in decision-making is mostly rules based.

5 – 6 Moderate

- Negative impact on Net Assets – $50 to $100 million
- Impaired business functions cause customer service to significantly deteriorate
- Moderate Agency brand (reputation) issues

- Moderate liability (e.g., lawsuits) potential
- Business practices significantly inconsistent with industry standards
- Moderate negative impact on the Agency's strategic plan
- Moderate negative impact on the Agency's Affordable Housing Plan
- Identified issues are inconsistent with the organization's values
- An evaluation of segregation of duties for employees' assigned tasks has not be completed
- Process generates non-routine transactions.
- Moderate activity complexities; Moderate individual judgment; few aspects of operation covered by established practices. Employee training to perform activities is lengthy.

3 – 4 Minor

- Negative impact on Net Assets – $10 to $50 million
- Inconvenient impact on critical business functions
- Compliance issues should be easily resolved with only minor financial consequences
- Small and temporary impact to Agency brand (reputation)
- Strategic plan will not be impaired or impact will not require altering the plan
- Affordable Housing Plan will not be impaired or impact will not require altering the plan
- An evaluation of segregation of duties shows no issues and is sufficiently documented and verifiable
- Process generates routine transactions that do not relate to the company's primary business activities
- Activities are low complexity. Some individual judgment required.

1 – 2 Insignificant

- Negative impact on net income – less than $10 million
- Critical functions will not be impaired
- No liability or threats to Agency brand (reputation)
- A segregation of duties evaluation has determined that there are no existing concerns within the past 12 months. The evaluation is sufficiently documented and verifiable.
- Process generates routine transactions related to the company's primary business activities.
- Activities are relatively straight forward. Employee training for activity performance is very minimal.

Likelihood

Assess the likelihood that the impact of the risk factor occurs. Do not consider the mitigation effect of existing controls.

9 – 10 Major Highly Likely

At least 90% probability - Expected to occur in most circumstances
Within the past 12 months, the following conditions have existed within the process:

- Task errors not predictable, limits not established
- Major activity bottlenecks, impact on upstream or downstream functions
- Staff has little or no experience, skills, training, and certifications
- Major transactional changes (e.g., major volume spikes, contractual changes)

- Changes in key personnel or staff

7 - 8 Likely
At least 66% but less than 90% probability - Will probably occur in most circumstances
Within the past 12 months, the following conditions or indicators have existed within the process:
- Task errors often in excess of approved limits
- Activity bottlenecks, impact on upstream or downstream functions
- Staff has insufficient skills, training, and certifications
- Significant transactional changes (e.g., major volume spikes, contractual changes)
- Changes in personnel or staff

5 - 6 About as likely as not
At least 33% but less than 66% probability - Might occur at some time
Within the past 12 months, the following conditions or indicators have existed within the process:
- Task errors occasionally in excess of approved limits
- Shortages in staffing levels
- Thinly experienced and skilled staff
- Moderate transactional changes (e.g., volume, nature)
- Some changes in key personnel or staff

3 - 4 Unlikely
At least 10% but less than 33% probability - Could occur at some time
Within the past 12 months, the following conditions or indicators have existed within the process:
- Task errors within approved limits
- Reasonable staffing levels;
- Adequately experienced and skilled staff
- Minimal transactional changes (e.g., volume, nature)
- Minimal changes in key personnel or staff

1 - 2 Rarely if ever
Less than 10% probability - May only occur in exceptional circumstances
Within the past 12 months, the following conditions or indicators have existed within the process:
- Task errors within approved limits
- Appropriate staffing levels
- Highly experienced and skilled staff
- No change in volume and nature of transactions
- No change in key personnel or staff who perform or monitor controls

Assurance (Effectiveness of Mitigation Activities)

Assess the effectiveness of existing procedures, mitigating strategies and overall Agency-wide controls, regardless of which business area performs activities (i.e., activities do not have to be performed by areas or employees reporting to you). Mitigation or controls can be written policies and procedures, fraud risk assessments, control automation, control self-assessments, standard management reporting, etc. Assess controls that mitigate the selected risks based on criteria below.

Tip: You may conclude that you rely on activities performed by other business areas to mitigate risks in your business area. If this is the case, you may assess controls provided by other business areas as you understand them, or you may request other business areas to assess control assurance from their base of knowledge. Regardless of your approach, be sure to document your reasoning.

9 - 10 Ineffective

Control effectiveness is not driven by the organization, but is solely dependent on each individual's background and standards.

Within the past 12 months, the following indicators have existed within the process:

- Ineffective and fragmented controls
- Undocumented procedures, mitigating strategies, entity-wide controls
- Inappropriate or no guidance from "tone at the top" (control environment)
- General inability of key personnel or staff to design and execute effective, cohesive mitigating activities

Within the past 12 months, the following conditions have existed within the process:

- No written guidance for performing tasks
- Key controls that mitigate the risks are mostly manual
- No participation in a control self-assessment program

7 – 8 Poor

Organizational values and behavior expectations are not well defined or consistently understood beyond management.

Within the past 12 months, the following indicators have existed within the process:

- Controls are documented but not performed consistently
- Controls are only partially effective, and the area copes as best they can
- No documented accountability
- Clear evidence of ongoing internal conflicts in the area
- Ineffective or no internal monitoring of controls

Within the past 12 months, the following conditions have existed within the process:

- Some written task guidance in various forms(e.g., personal notes), but may not immediately be available to auditors due to inconsistent format and / or unapproved status
- Key controls that mitigate the risks are mostly manual and hybrid
- Limited participation in a control self-assessment program

5 – 6 Could be improved

Comprehensive policy statements on organizational values and behavior expectations are published to all internal and external stakeholders.

Within the past 12 months, the following indicators have existed within the process:

- Compliance with written policies and procedures at all levels is accepted as the norm
- Controls documented and generally performed, but are not sufficiently responsive to operational changes
- Internal monitoring exists but significant deficiencies in effectiveness were observed
- Some written procedures and standards exist, but may not be sufficiently clear or comprehensive
- Accountability is not enforced

Within the past 12 months, the following conditions have existed within the process:

- Written task guidance for important aspects; immediately available to auditors upon request
- Key controls that mitigate the risks are a combination of automated, hybrid and manual
- Full participation in a control self-assessment program

3 – 4 Good

Cultural norms ensure compliance with organizational values and policies at all levels. Employees believe that ’no one is above the law’ because Management's "tone at the top" demonstrates they embrace organizational values in their daily actions.

Within the past 12 months, the following indicators have existed within the process:

- Organizational values and policies require both short- , mid- and long-term benefit
- Formalized processes exist to ensure that organizational values and policies remain the norm
- Controls are effective, documented and followed on most occasions
- Clear ownership of control responsibility and role accountability
- Controls are responsive to operational changes
- Technically competent and experienced staff with some turnover
- No significant deficiencies observed in internal monitoring
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management (e.g., internal audit) in the past three years

Within the past 12 months, the following conditions have existed within the process:

- External audit has reviewed controls within the past 2 – 3 years with satisfactory results
- Key controls that mitigate the risks are primarily automated and hybrid
- Full participation in a control self-assessment program
- Written task guidance is comprehensive, including (i) how and when to perform tasks; (ii) what tasks are supposed to achieve; (iii) how to handle exceptions; (iv) how tasks affect the process; and (v) how tasks affect upstream and downstream processes

1 – 2 Effective

Board, management and employees alike demonstrate through their actions that behavior outside of organizational values and policies is unacceptable.

In the past 12 months, the following indicators have existed within the process:

- Accountability at all levels is culturally driven
- Embedded ability to take advantage of short-term opportunities while ensuring long-term viability due to continuous discipline and sound ethical decision-making skills at all levels
- Effective, documented controls are in place
- Technically competent and experienced staff with minimal turnover

- Highly effective management review takes place
- No deficiencies observed in control environment (e.g., procedure manual, controls well documented, clear standards and trending for control exceptions)
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management in the past two years

Within the past 12 months, the following conditions have existed within the process:

- External audit has reviewed controls within the past year with satisfactory results
- Key controls that mitigate the risks are primarily automated and hybrid
- Full participation in a control self-assessment program
- Written task guidance is comprehensive, including (i) how and when to perform tasks; (ii) what tasks are supposed to achieve; (iii) how to handle exceptions; (iv) how tasks affect the process; and (v) how tasks affect upstream and downstream processes

Appendix B

Risk Assessment Matrix

Section A: Inherent Risk Score Table

Risk Source Description: ________		***Likelihood***				
		1 - 2 Rarely if ever May occur only in exceptional circumstances	3 -4 Unlikely Could occur at some time	5 - 6 About as likely as not Might occur at some time	7 - 8 Likely Will probably occur in most circumstances	9 - 10 Major Highly Likely Expected to occur in most circumstances
Impact	9 - 10 Major Would stop achievement of goals and objectives	Moderate	High	High	Very High	Very High
	7 - 8 Serious Would threaten goals and objectives; requires close management	Moderate	Moderate	High	High	Very High
	5 - 6 Moderate Would necessitate adjustment to the overall function and require corrective action. May have a negative impact	Low	Moderate	High	High	High
	3 - 4 Minor Would threaten an element of the function. May cause small delays or have a minor impact on quality	Low	Low	Moderate	Moderate	High
	1 - 2 Insignificant Impact on function, or its objectives is negligible. Routine procedures would be sufficient to deal with the consequences	Low	Low	Moderate	Moderate	High

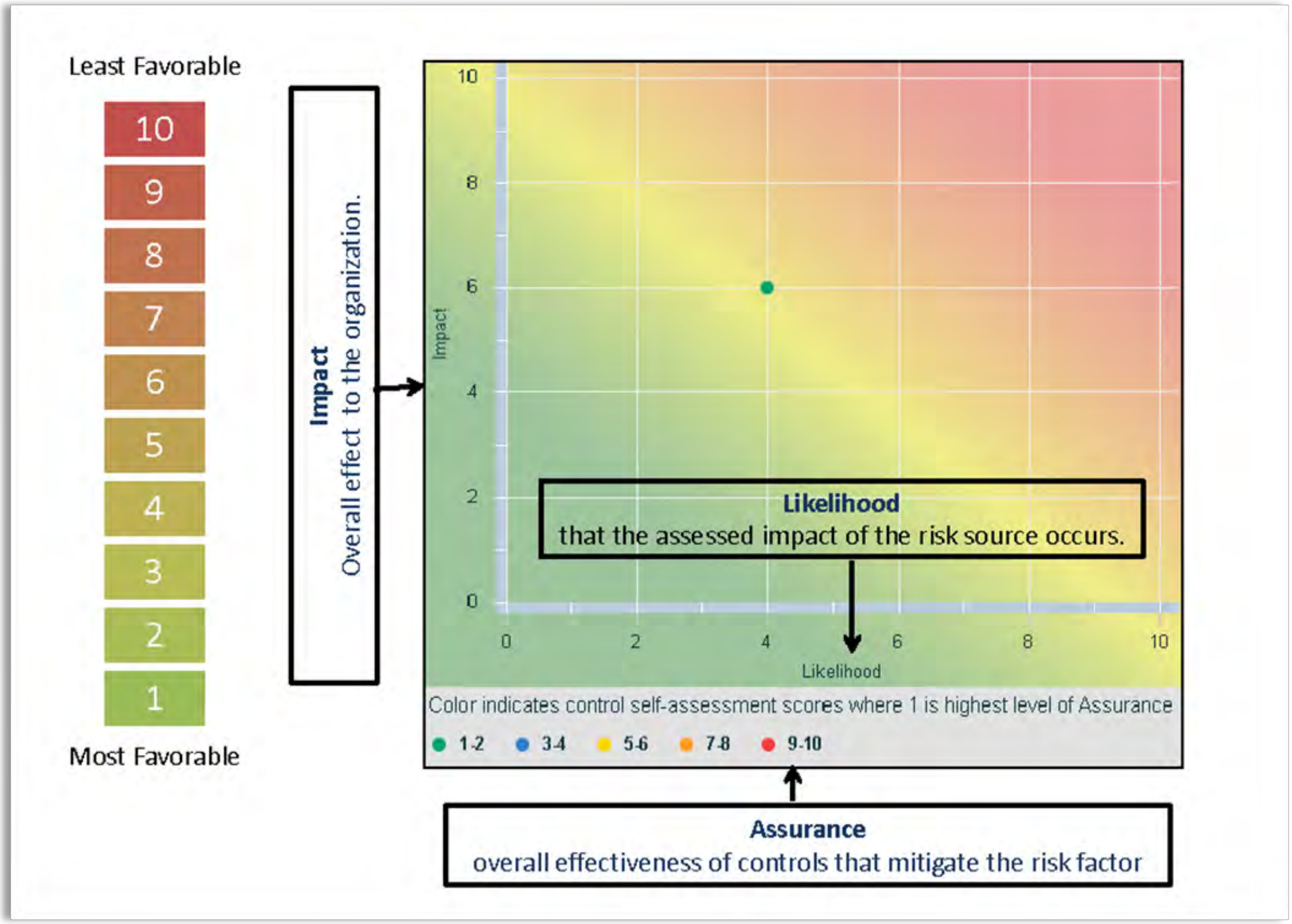
Section B: Assessed Assurance (Effectiveness of control / mitigation activities)				
1 - 2 Effective	3 - 4 Good	5 -6 Could be improved	7 - 8 Poor	9 - 10 Ineffective

Section C: Residual Risk Score Table		
Risk Level	**Residual Index Score**	**Definition**
Very High	Above 350	Would prevent achievement of objectives, cause unacceptable cost overruns or schedule delays and requires close Executive attention
High	201 to 350	Substantial delays to project schedule, significant impact on technical performance or cost, and requires close management attention
Moderate	101 to 200	Requires identification and control of all contributing factors by monitoring conditions, and reassessment of program / project milestones
Low	100 and below	Normal control and monitoring measures sufficient

Appendix C

Assessed impact is on the y axis, likelihood is the x axis. Each critical risk has a data point associated with its assessed impact and likelihood. Additionally, each critical risk data point is color coded to reflect the level of assessed assurance *(Figure 1)*.

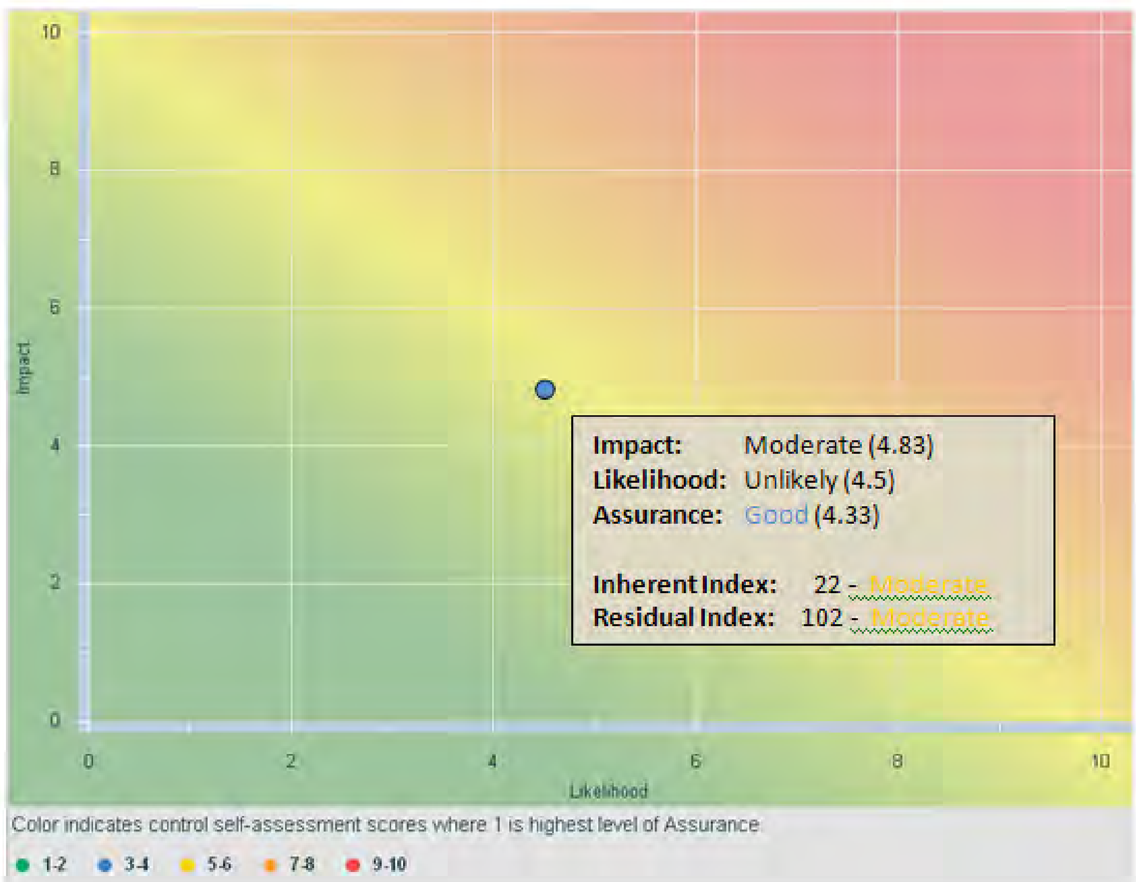
Figure 1:



A general heat map overview example, with the risk source Compliance, is provided to demonstrate risk source placement within a grid and formulas for calculating inherent and residual indexes *(Figure 2)*.

Figure 2:

Compliance
Moderate Risk Level



Inherent Index is calculated by multiplying an individual Impact score by an individual Likelihood score to produce an individual Inherent Index score. All individual Inherent Index scores are averaged to produce an Inherent Index score for each Risk Source. Compliance was assessed 6 times and the average of the individual Inherent Index scores is 22, which is listed as the Average in the Inherent Index column of Table 1.

Table 1:

Risk Source - Compliance	Impact	Likelihood	Inherent Index	Assurance	Residual Index
Risk Profile - 1	4	3	12	3	36
Risk Profile - 2	6	5	30	4	120
Risk Profile - 3	5	6	30	6	180
Risk Profile - 4	5	6	30	5	150
Risk Profile - 5	5	3	15	4	60
Risk Profile - 6	4	4	16	4	64
Average	**4.83**	**4.50**	**22**	**4.33**	**102**

The Residual Index measures the risk that remains after controls, mitigation activities, are taken into account. Residual index is calculated by multiplying an individual Inherent Index score by an individual Assurance score to produce an individual Residual Index score. All individual Residual Index scores are averaged to produce a Residual Index score for each Risk Source. Compliance was assessed 6 times and the average of the individual Residual Index scores is 102, which is listed as the Average in the Residual Index column of Table 1.

Residual Index tiering has been incorporated into the Risk Assessment Matrix to better delineate risk levels.

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AGENDA ITEM: 9.A
MINNESOTA HOUSING BOARD MEETING
November 15, 2012

ITEM: Repayment of HOME Funds, HOME Rental Rehabilitation Program

CONTACT: Jim Cegla, 651-297-3126 jim.cegla@state.mn.us; Jonathan Stanley, 651-284-3178 jonathan.stanley@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
This report is being submitted to inform the Board of a repayment to HUD for non-compliant HOME funded units.

FISCAL IMPACT:
Payment will be made from the General Reserve. Staff will explore and, if warranted, pursue the Agency's options for obtaining payment from the owners to reimburse the General Reserve.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
Background

The HOME program requires that HOME-assisted units provide “affordable housing” for the term of the affordability period, or that the HOME assistance be repaid. On July 24, 2008, the Board approved a process to repay the Department of Housing and Urban Development (HUD) for grants administered by Minnesota Housing and made to HOME Program-assisted properties. Repayment to HUD is required if those properties fail to meet grant affordability restrictions and other available remedies are unsuccessful. The process approved on July 24, 2008 requires that: 1) Staff prepare a Board report for the summary review agenda describing the situation requiring the payment of funds and requesting a Pool 3 allocation of that amount to the appropriate HOME program line of the AHP (Affordable Housing Plan) and 2) Finance division amend the AHP in accordance with the approved Board report.

On March 25, 2010 the Board modified the process when it directed staff to disburse the above described grant reimbursements from the General Reserve fund instead of Pool 3. Since disbursements from the General Reserve fund do not impact the AHP, the requirement for staff to seek Board approval for an amendment to the AHP to provide for the grant reimbursements no longer applies.

The Agency’s HOME Rental Rehabilitation Program, which is no longer operating, provided funds to private owners for the rehabilitation of small, mostly privately-owned rental properties. In 2007, the Agency determined that several owners who had received dollars under the program had failed to comply with federal HOME program requirements. The Agency subsequently put in place significantly more robust compliance procedures for monitoring compliance with HOME regulations. However, after almost five years of working to bring as many properties into compliance as possible, the Agency still has 14 rehabilitated rental units in eight developments that were either never occupied after completion, or where the owners failed to provide the necessary documentation to demonstrate that the units met the HOME program’s affordability requirements. Under previous interpretations of regulations from HUD, the Agency estimated that it might face a repayment obligation of as much as $647,932, or the total HOME investment in the projects. However, HUD recently agreed to reduce the amount of the repayment obligation. Therefore, the Agency is required to repay to the Minnesota Housing HOME account, only the amount of the HOME investment in those 14 non-compliant units. Such repayment is achieved by Staff making a payment of $138,866.88 (the amount of HUD HOME investment) from General Reserve funds to the Minnesota Housing HOME program account. Significantly, these repaid funds are not lost to the Agency. Following the transfer they become available again to be used for future HOME-eligible projects.