Planning Affordable Housing Activities

Affordable Housing Plan

October 2017 - September 2018

MINNESOTA HOUSING

CONTENTS

SUMMARY:
2018 AT A GLANCE

In our 2016-19 Strategic Plan, we committed to creating a world where all Minnesotans can live in a safe, stable home they can afford in a community of their choice.

For this "big, audacious goal" to become a reality, we will have to overcome very significant challenges. Since 2000, the number of households who are burdened by their housing costs has increased 58 percent. Currently, the limited supply of available housing is driving up rents and home prices, many Minnesotans confront systemic and institutional barriers to housing choice, and we have limited resources to address these issues.

To move forward, we must work at our very best, and we will:

- Be flexible and responsive,
- Develop effective partnerships,
- Remove barriers and provide equitable access to programs and opportunity,
- Solve problems through innovation and creativity, and
- Leverage our strong financial and operational capacity.

Through effective financial and program management and strong support from the Governor and Legislature, we are also making available over $1.1 billion in housing assistance in 2018, which is a $62 million increase from 2017. We expect to assist over 68,000 households.

Highlights include:

- Making available $630 million for our Home Mortgage Loan program, which has a strong record of increasing homeownership for households of color or Hispanic ethnicity.
- Improving our rural delivery network across all our programs. Because we depend on robust networks of partners to carry out the programs and services that we finance, we are only as effective as our partners. Smaller organizations with limited resources in rural areas face significant challenges.
- Releasing a new analysis of impediments to fair housing choice. The analysis will evaluate factors across Minnesota that restrict housing choice based on race, color, religion, gender, disability, familial status, or national origin and include an action plan to address them.
- Pursuing a larger request for Housing Infrastructure Bonds (HIBs) and General Obligation (GO) bonds in 2018, and include senior rental housing as a use of HIBs. Through effective management, we have funded the development or rehabilitation of 2,125 units of affordable housing throughout the state using a little more than $130 million of the HIB proceeds that we have received since the 2012 bonding bill. With the $25.5 million we received in 2012 and 2014 from GO bonds, we also have funded the rehabilitation of 3,361 units of public housing.

This Affordable Housing Plan (AHP) will guide our work for the next year as we take additional steps in creating a world where all Minnesotans have a safe, stable home they can afford in a community of their choice.

TABLE 1: FUNDING BY ACTIVITY

Program Category	Funding
Homebuyer Financing and Home Refinancing	$663,000,000
Homebuyer/Owner Education and Counseling	$2,802,000
Home Improvement Lending	$24,794,000
Rental Production - New Construction and Rehabilitation	$133,172,790
Rental Assistance Contract Administration	$189,555,000
Housing Stability for Vulnerable Populations	$32,539,903
Rental Portfolio Management	$2,482,043
Multiple Use Resources	$76,678,015
Other	$1,960,314
Total	**$1,126,984,065**

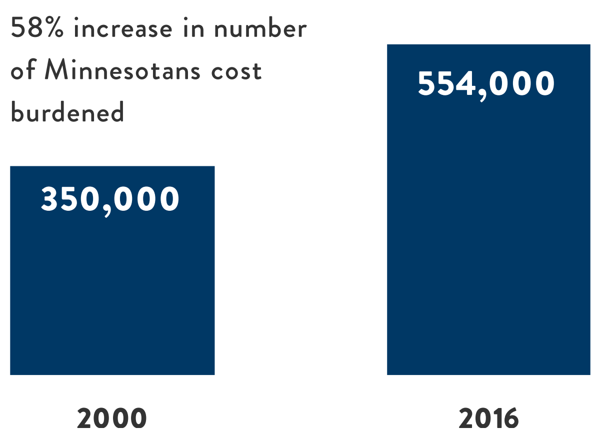
CHAPTER 1:
THE NEED

Housing is the foundation for success, providing individuals and families the stability to thrive. However, too many Minnesota lack safe, stable, affordable housing.

MINNESOTA NEEDS MORE AFFORDABLE HOUSING

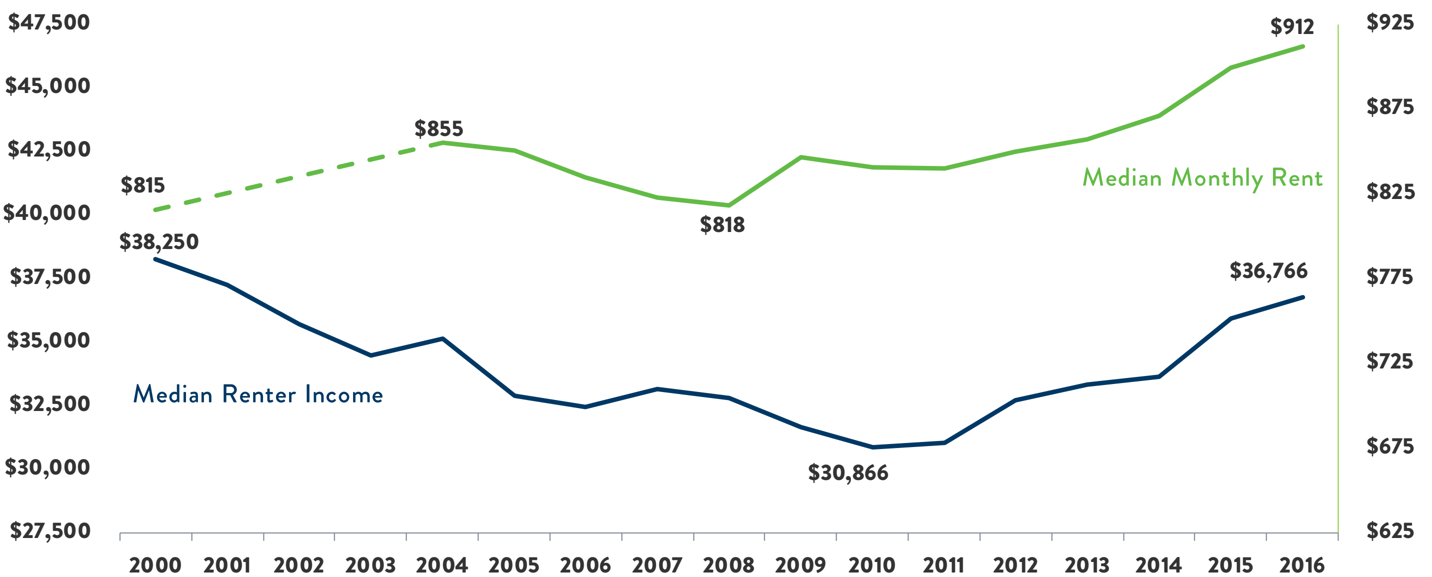
There are many factors that contribute to the lack of affordable housing, including insufficient incomes, rising housing costs, a limited supply of available housing, and systemic and institutional barriers that can shut people out. Our task is to counteract these forces.

FIGURE 1: NUMBER OF COST BURDENED HOUSEHOLDS, 2000 AND 2016[2]



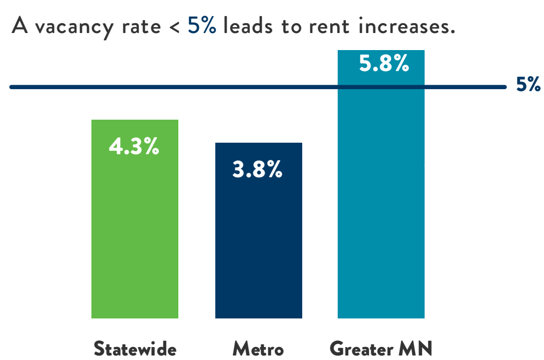
We face significant challenges. Between 2000 and 2016, the number of Minnesota households burdened by their housing costs increased 58 percent from 350,000 to 554,000. Renters are particularly strained, with nearly half paying more than 30 percent of their income on housing.[1]

FIGURE 2: INFLATION ADJUSTED RENTS AND INCOME, 2000-2016[3]



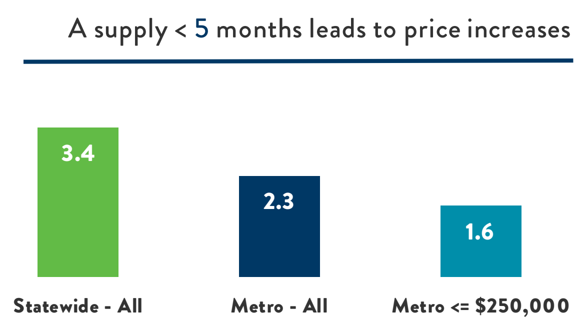
The number of cost burdened households has increased because incomes are not keeping pace with rising housing costs in the long run. The trend is most pronounced for renters. As shown in Figure 2, median monthly rents increased 11 percent from $815 in 2000 to $912 in 2016 while median annual incomes decreased 4 percent from $38,250 to $36,766. Renter incomes have been increasing since 2010 and keeping pace with rising rents, which has slightly narrowed the gap.

FIGURE 3: VACANCY RATES, JULY 2017[7]



Going forward, we need robust income growth for lower-income households to keep pace with rising rents. A rental vacancy rate below 5 percent generally reflects a housing shortage and rising rents. As shown in Figure 3, the current rental vacancy rate is 4.3 percent statewide and just 3.8 percent in the Twin Cities metro area.[4] In 2016, average rents in the metro increased by 6.6 percent from $1,053 to $1,123.[5] While the vacancy rate across Greater Minnesota is just above 5 percent, it is well below that level in many communities.[6]

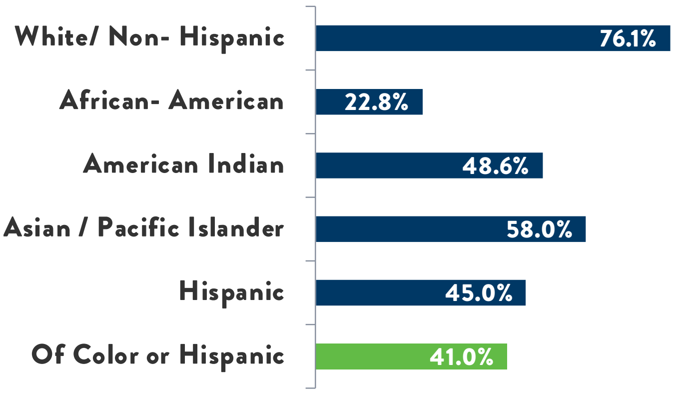
FIGURE 4: MONTHS-SUPPLY OF HOMES FOR SALE, JUNE 2017[8]



We expect home prices to continue to increase with the limited supply. As shown in Figure 4, the months-supply of homes for sale in June 2017 is 3.4 months statewide and 2.3 months in the metro area, or 1.6 months for homes at $250,000 or less. This reflects how long it would take to clear the current inventory at the current sales pace, and indicate a tight market with rising prices when supply is less than 5 months. In the last year, home prices have increased by 6.4 percent statewide and 5.5 percent in the metro.[9]

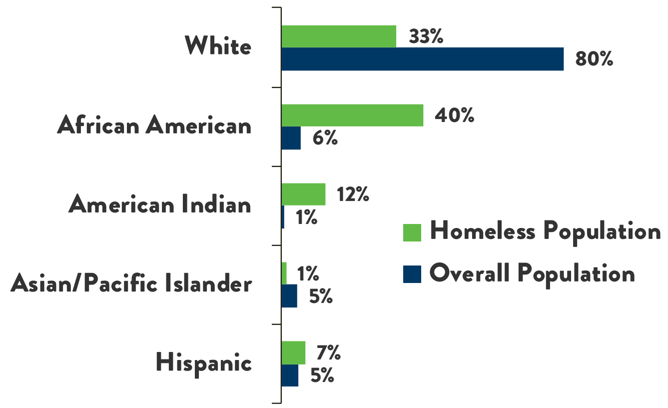
SOME MINNESOTANS FACE SIGNIFICANT BARRIERS TO AFFORDABLE HOUSING

FIGURE 5: HOMEOWNERSHIP RATES, 2016[10]



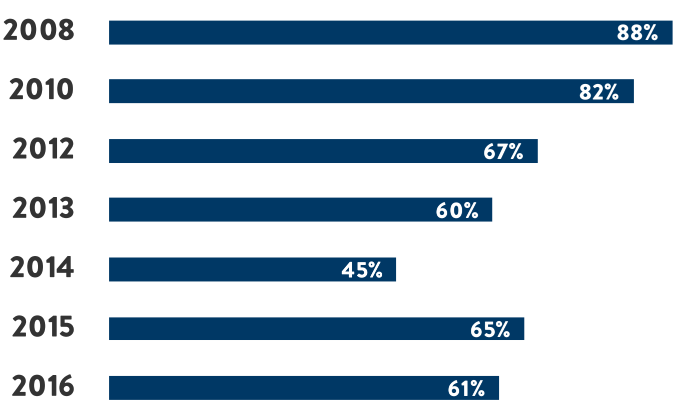
Homeownership: In Minnesota, only 41.0 percent of households of color or Hispanic ethnicity own their home, compared with 76.1 percent of white households. Minnesota's disparity is the fifth largest in the country.

FIGURE 6: SHARE OF OVERALL AND HOMELESS POPULATION IN MINNESOTA, BY RACE AND ETHNICITY[11]



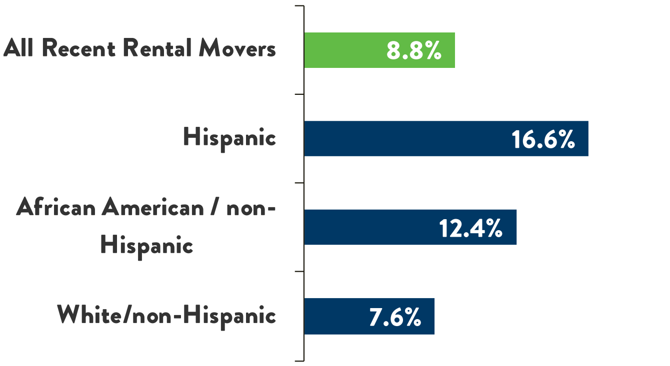
Homelessness: People of color and Hispanic ethnicity are far more likely to experience homelessness. For example, while African Americans account for just 6 percent of Minnesota's overall population, they account for 40 percent of people experiencing homelessness.

FIGURE 7: SHARE OF NEW HOUSING CHOICE VOUCHER HOLDERS WHO SUCCESSFULLY FOUND HOUSING WITH THE VOUCHER, METRO HRA, BY YEAR[12]



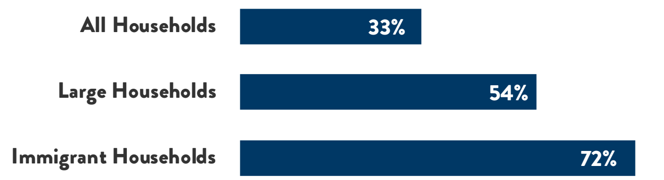
Housing Vouchers: The Housing Choice Voucher program provides voucher holders with rent subsidies that allow them to pay no more than 30 percent of their income for rent, but they must find a rental unit on the open market to use the voucher. In 2016, almost 40 percent of the households moving off the Metro Housing and Redevelopment Authority's waiting list were unable to find housing where they could use their newly acquired Housing Choice Voucher. Finding housing that meets both the program's quality standards and rent limits can be challenging. In addition, some landlords with qualifying units refuse to rent to people using rental vouchers. In contrast, only 12 percent of voucher holders were unable to find housing in 2008. (The success rate improved in 2015 when the Metro HRA updated its waiting list. The previous list was eight years old.)

FIGURE 8: SHARE OF RECENT RENTAL MOVERS WHO WERE EVICTED OR FACED THE THREAT OF EVICTION, NATIONAL[13]



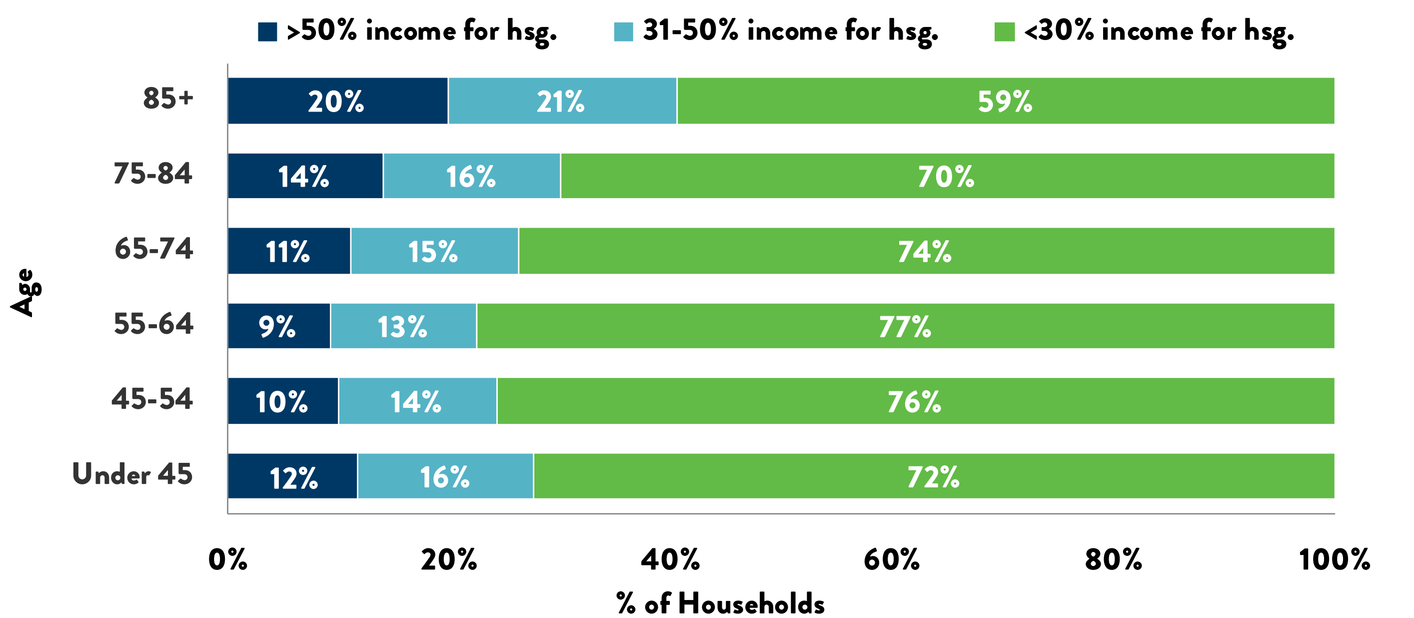
Evictions: According to a recent study by the Federal Reserve Bank, 8.8 percent of renters in the U.S. who moved in the previous two years did so because they were evicted or faced the threat of eviction.[14] Being evicted is not only extremely disruptive but also makes it far more difficult to access housing in the future. Landlords use rental histories to screen potential tenants, and renters of color are more likely to confront this barrier.

FIGURE 9: PERCENT HOUSEHOLDS OVERCROWDED AND/OR COST BURDENED, TWIN CITIES METRO AREA[15]



Large Families and Immigrants: In 2015, 39,600 households in the Twin Cities metro area were large families (households with 6 or more people). Of these large families, 44 percent were immigrant families (with the head of household or spouse born outside of the U.S.). Finding affordable housing with at least three or four bedrooms is very challenging. In 2015, 54 percent of large households (21,400 households) were overcrowded or cost-burdened, while 72 percent of immigrant households were.

FIGURE 10: COST-BURDEN PERCENTAGES BY AGE OF HEAD OF HOUSEHOLD, MINNESOTA, 2015[16]



Seniors: During the retirement years, more households become burdened by their housing costs. While 26 percent of households age 65 to 74 are cost burdened, 41 percent age 85 and older are burdened.

CHAPTER 2:
OUR APPROACH

At Minnesota Housing, we passionately pursue our mission: Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

We are more than a financial institution that invests in affordable housing; we strive to build stronger communities and create better places for families and individuals to live and thrive.

This AHP allocates more than $1.1 billion of housing assistance in 2018. To achieve our mission and fulfill our priorities with these resources, we will be thoughtful and deliberate about how we work. By focusing on how we work, we optimize our programs to effectively address the housing needs outlined in Chapter 1. In the following sections, we outline key actions that we will take during 2018 in each of five focus areas and provide examples of our current or past work.

CORE ACTIVITIES

- Promote and support successful homeownership
- Finance new affordable rental opportunities
- Preserve the existing housing stock
- Provide housing resources to support community and economic development
- Lead, collaborate and take action on critical housing issues
- Strengthen our financial and organizational capacity

STRATEGIC PRIORITIES

- Reduce Minnesota's racial and ethnic homeownership disparity
- Preserve housing with federal project-based rent assistance
- Prevent and end homelessness
- Finance housing responsive to Minnesota's changing demographics
- Address specific and critical local housing needs

HOW WE WORK

- Be flexible and responsive
- Develop effective partnerships
- Remove barriers and provide equitable access to programs and opportunity
- Solve problems through innovation and creativity
- Leverage our strong financial and operational capacity

BE FLEXIBLE AND RESPONSIVE

We live in an era of change and uncertainty. The economy, housing and financial markets, political environment, and demographics are very different today than they were ten, or even five years ago. For example, mortgage interest rates are currently near historic lows and about half of what they were a decade ago (3.9 percent in 2017 versus 6.7 percent in 2007).[17] Housing needs also vary from community to community. The needs in Minneapolis, Woodbury, Mankato, and Perham are all very different. To effectively work in this environment and take advantage of the opportunities that arise, we must be flexible and responsive. In 2006, we provided $718 million of housing assistance, and over the following ten years, a period of significant change and uncertainty, we increased our assistance by 52 percent to $1.09 billion in 2016. We created this growth by identifying and leveraging funding opportunities and keeping our programs relevant in an ever-changing world.

OUR COMMITMENT TO ACTION IN 2018

Implement revised multifamily underwriting standards and program guidelines to respond to customer needs. To make our multifamily first mortgages more flexible and responsive, we have started offering:

- Interest rates that are more competitive,
- Longer loan terms and amortization periods,
- Lower debt-coverage ratios, and
- Higher loan-to-value ratios.

We know that the need for financing does not always coincide with the annual consolidated RFP timeline, so we have changed our business model to more consistently offer first mortgages, as well as deferred funds, outside of the Request for Proposals (RFP) cycle.

Assess the loss of naturally-occurring affordable housing, identify Minnesota Housing's role in addressing the issue, and build partnerships. Minnesota has recently been losing a significant amount of unsubsidized "naturally-occurring" affordable rental housing. Typically, these are older, dated units with modest rents. With the state's low vacancy rates and rapidly rising rents, investors are buying these properties, updating them, and raising the rents so that they are no longer affordable. Minnesota has roughly 335,000 rental units that are affordable to households with incomes at or below 50 percent of the area median income. While 110,000 of these units are affordable through rent and income restrictions, 225,000 are naturally occurring. In 2017, we invested $5 million in an effort of the Greater Minnesota Housing Fund that will finance

BEING RESPONSIVE: ADJUSTING DOWNPAYMENT AND CLOSING COST LOANS

In the fall of 2016, we noticed that our home mortgage lending was less than expected. After a careful analysis, we determined that the amount of assistance provided through our downpayment and closing-cost loans was insufficient in a market where home prices were rising, fewer sellers were offering to pay closing costs, and interest rates were expected to rise. In response, we increased the maximum loan amount offered under our downpayment and closing-cost loan programs and increased the income limit to qualify for one of them. The adjustments were successful. We are now expecting to reach $650 million in mortgage lending for the year, surpassing the original $600 million goal. With an average mortgage of $165,000, the changes will help move roughly 300 additional families into homeownership.

the acquisition and prevent the loss of this housing. We need to strategically think about next steps, including working with partners on local policy changes.

Investigate strategies for preserving and improving manufactured home parks. Failing infrastructure (sewer, water, roads, etc.) and market pressures (demand for land) are leading to the loss of manufactured home communities. In 2017, using a one-time appropriation from the Legislature, we funded two infrastructure projects in Rochester and Fridley. In 2018, we will work with partners and stakeholders to identify a larger scale strategy and have budgeted $250,000 for a potential pilot program to explore new approaches, in addition to our regular program that provides up to $2 million annually for community residents to buy the park in which they live through a cooperative ownership structure.

Address workforce housing needs. In some communities, employers struggle to recruit a skilled workforce because employees cannot find housing. This is a significant issue in economically-vibrant Greater Minnesota communities with limited new construction. Through our Economic Development and Housing/Challenge program, we have added 900 units of workforce housing since 2012 for renters with incomes no higher than $64,000 and homeowners with incomes no higher than $92,500.[18] In 2018, we will continue financing new affordable workforce housing and assume responsibility for the Greater Minnesota Workforce Housing Development Program, a $2 million program previously run by the Department of Employment and Economic Development that funds rental housing developments without income restrictions.

Evaluate and refine our Home Improvement Loan Program. This program includes both the Fix-Up and Community Fix-Up programs, which provide fully-amortizing loans. In recent years, lending has been limited, due to the greater availability of alternative sources of financing, including home-equity lines of credit and cash-out refinancing. Nevertheless, our program has served some market niches very well, including people who need an unsecured loan or a loan with a higher loan-to-value ratio. It is also effective at financing projects that only involve energy conservation or accessibility improvements. The program has also experienced a declining number of organizations that originate these loans. To more effectively serve the target market statewide, we will identify and implement product refinements and stabilize the lender network.

DEVELOP EFFECTIVE PARTNERSHIPS

We depend on robust networks of partners to run programs, shape policies, serve vulnerable populations, and develop great places for people to call home. We work with other state agencies, community-based organizations, developers, realtors, lenders, social service agencies, businesses, and philanthropy to make Minnesota a better place for low- and moderate-income individuals and families to live and thrive.

OUR COMMITMENT TO ACTION IN 2018

Strengthen our partnership networks and increase equitable access to housing opportunities for people with the fewest housing choices. By strengthening our networks, we hope to improve the lives of under-represented populations and people living in areas of the state with limited access to resources.

Create an agency-wide team to assess Minnesota's rural delivery networks and work with partners to support and improve these networks. In a recent analysis, we found that 445 different organizations administer our community-based programs, including home improvement and rehabilitation loans, homebuyer education, rent assistance, homeless prevention, and community improvement programs. In many cases, the 334 organizations operating in Greater Minnesota are small organizations that administer multiple programs for us and provide other critical services. For example, Community Action Agencies frequently administer several of our programs in addition to energy assistance, weatherization, job training, food shelves, Head Start, child care, and WIC. Besides these community administrators, our network of rural home mortgage lenders is also critical.

Launch Homework Starts with Home. We are working with the Department of Education, Office to Prevent and End Homelessness, Department of Human Services, and Heading Home Funders Collaborative (a coalition of philanthropic organizations) to support community partnerships that will create targeted responses to end homelessness for students and their families. To maximize its effectiveness, the initiative will combine and leverage $2 million of our rental assistance and homeless prevention resources, $300,000 of philanthropic support for local capacity building, and the resources and expertise of local education, housing, and service providers. The initiative will assist about 200 families and 400 students, with the goal of achieving housing stability and improved school attendance and educational achievement.

Build stronger connections with the Minnesota Department of Human Services (DHS) with respect to serving seniors. To adequately serve the growing number of seniors, we must develop effective strat-

DEVELOPING EFFECTIVE PARTNERSHIPS: LEADING INTERAGENCY COLLABORATION

Minnesota Housing is home to both the Interagency Council on Homelessness and the Olmstead Subcabinet. In addition, Commissioner Tingerthal is the chair of both these statewide interagency efforts. The Council is a collaboration of 11 state agencies with the goal of preventing and ending homelessness. Since the Council's Plan to Prevent and End Homelessness was launched in December of 2013, homelessness has dropped 8.5 percent in Minnesota. In the fall of 2017, the Council will update the statewide plan. The Olmstead Subcabinet is a similarly structured eight-agency collaboration with the goal of providing people with disabilities the choice and opportunity to live, learn, work, and enjoy life in integrated settings in the community. Since the Olmstead Plan was adopted in 2015, more than 5,100 Minnesotans with disabilities have moved from a segregated setting to integrated housing in the community.

egies for aging in place by coordinating housing with in-home services. Last year, we awarded funds to two senior rental developments with a services component under a pilot that was supported by DHS in both the design of the pilot and selection of the developments. We also co-sponsored with DHS a study by Wilder Research on the home rehabilitation and in-home services needs of extremely low-income senior homeowners. These two initial efforts have laid the ground work for an effective partnership. The Minnesota Board on Aging and DHS' Aging Services Division recently launched a joint strategic planning process and invited us to participate.

Continue supporting and strengthening the Homeownership Opportunity Alliance – an industry-wide collaborative to reduce the homeownership disparity in Minnesota. Minnesota Housing is making significant strides to address the disparity, with 32 percent of our first-time homebuyer mortgages going to households of color or Hispanic ethnicity. However, we only account for roughly 5 percent of the overall mortgage market. In the broader Minnesota market, loans to households of color or Hispanic ethnicity only account for 12 percent of the lending. For the coming year, the Alliance plans to focus on two strategies: (1) providing borrowers and stakeholders with a resource outlining available products and services, and (2) launching a messaging campaign to encourage potential homebuyers to pursue homeownership.

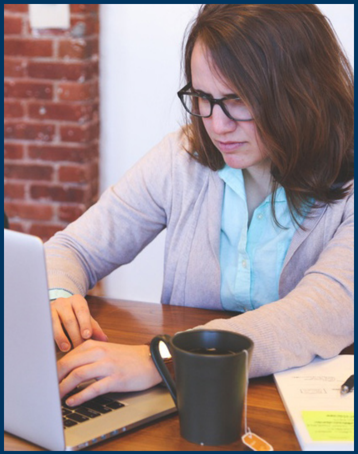
REMOVE BARRIERS AND PROVIDE EQUITABLE ACCESS TO PROGRAMS AND OPPORTUNITY

All Minnesotans need access to a place to call home in a community of their choice. Our investments in Minnesota communities are part of the larger effort to ensure that housing choices are not limited by systemic and institutional barriers.

OUR COMMITMENT TO ACTION IN 2018

Release a new Analysis of Impediments to Fair Housing Choice. The analysis will evaluate factors across Minnesota that restrict housing choice based on race, color, religion, gender, disability, familial status, or national origin and include an action plan to address them.

Address homeownership program gaps in specific communities. We have identified gaps in our homebuyer education and lending activities in specific communities with respect to serving households of color and Hispanic ethnicity. The nature of and reasons for the gaps vary by community. In 2018, we will continue to collaborate with local partners to further assess and address the gaps.



REMOVING BARRIERS: ADDING ACCESSIBILITY INFORMATION AND FUNCTIONALITY TO HOUSINGLINK'S SEARCH TOOL

Each month more than 45,000 people use HousingLink to search for affordable rental housing. In 2015, we provided HousingLink $180,000 to improve the search information and functionality of their website for people with disabilities, and to increase marketing and outreach. As of March 2017, HousingLink listed 1,100 rental units with accessibility features, and 4,000 searches were conducted with accessible functionality. HousingLink also hosts a Fair Housing page on their website, which is offered in four languages.

Add financial wellness to the services provided under the Homebuyer Education, Counseling, and Training (HECAT) program. HECAT offers homebuyer education and counseling, foreclosure counseling, and reverse mortgage counseling. To enhance the program and increase access to homeownership, we are adding financial wellness services, which help people create a budget and savings plan, reduce their debt, improve their credit scores, and better protect themselves. In addition to HECAT funding, NeighborWorks has awarded the Homeownership Center (one of our HECAT funding partners) $400,000 to support the financial wellness work.

SOLVE PROBLEMS THROUGH INNOVATION AND CREATIVITY

Being nimble and responsive in a changing and uncertain world requires being innovative and creative, particularly when addressing complex problems. New and evolving situations require new solutions.

OUR COMMITMENT TO ACTION IN 2018

Continue supporting creative approaches through our Capacity Building Grants. The grants support new strategies that address community challenges across the state, including the following examples.

- Dayton's Bluff is striving to create lower-cost, high-quality, single-family homes with minimal subsidies, using modular construction techniques to develop affordable Energy STAR homes. Ecolibrium3 is using a different strategy to address the same issue by partnering with the University of Minnesota Duluth to create a small-scale manufacturing facility in Northeast Minnesota to build components for energy-efficient, single family homes.
- Another critical housing issue is evictions. One Family One Community will use listening sessions, focus groups, and tenant education to create solutions for families facing evictions. Meanwhile, the Volunteer Lawyers Network is developing strat-

INNOVATION: LAUNCHING LANDLORD RISK MITIGATION FUND

In recent years, the vacancy rate has been 3 percent and even lower in many Minnesota communities. As a result, landlords have multiple applicants seeking a single vacancy, allowing them to be very selective. Applicants with criminal records, evictions, poor credit histories, and other issues cannot find housing, forcing them to face the prospect of homelessness. In response, we pursued and received a $250,000 appropriation from the Legislature in 2016 to run a Landlord Risk Mitigation Fund pilot. Landlords that choose to participate in the pilot and rent to tenants with these housing barriers will have access to funds for lost rent and damages if they exceed a tenant's security deposit. Under the pilot, we are also providing nearly $160,000 for other supports, including housing location services for potential tenants, landlord recruitment, and tenant-landlord mediation. In July 2017, we selected three community organizations to administer local programs in the Brainerd area, St. Louis County, and the suburbs of the Twin Cities. Each grantee will operate a slightly different program, and we will evaluate each. The goal is to identify successful strategies that can be brought to a larger scale.

egies for the legal community to connect people facing eviction with needed resources earlier in the process to prevent evictions.

- Twin Cities LISC and Noor development will identify and evaluate mortgage products that are acceptable to people who cannot participate in interest-bearing loans for religious reasons. The two organizations are working with community-based organizations and government institutions and will: (1) carry out surveys and focus groups to better understand and explain the need, (2) work with a local lender to pilot a product that would work in the Minnesota market, and (3) negotiate with banks to see if they can offer products that are more acceptable to local communities.

Refine our energy conservation work. Our Energy Efficiency Fellow, hired in 2016 with support from the Energy Foundation, is leading this work, which will:

- Strengthen connections between affordable-housing and energy-efficiency organizations;
- Leverage energy rebates offered by utility companies and increase the energy efficiency of affordable rental housing by requiring all tax credit and deferred loan applicants to provide an energy rebate analysis; and
- Launch a new energy benchmarking pilot, giving 30 energy-inefficient properties in our rental portfolio access to: (1) a benchmarking tool that will track and evaluate their energy and water usage, (2) energy audits, and (3) grant funds for energy and water retrofits.

LEVERAGE OUR STRONG FINANCIAL AND OPERATIONAL CAPACITY

With disciplined, risk-based financial management, we have built a strong balance sheet capable of producing earnings and providing some continuity of funding and services into the future. We can often be responsive and innovative with Agency-generated funds.

Through proactive and strategic investments in our staff and information technology, we have also built strong internal operations that can be leveraged as we focus on our mission.

OUR COMMITMENT TO ACTION IN 2018

Pursue continuous improvement for our programs and operations. While our staff are always looking for ways to improve operations and program outcomes, the Publicly-Owned Housing Program (POHP), the Rental Rehabilitation Deferred Loan (RRDL) program, and Home Improvement Loan Programs will go through more formal evaluations this year. For POHP, we will streamline the Request for Proposal (RFP) process to make it easier for both the applicants and our staff. RRDL addresses the rehabilitation needs of small rental properties in Greater Minnesota, especially those with one to four units. We will continue to refine the program to effectively meet this challenging need. The evaluation of the Home Improvement Loan Program is described earlier.

Pursue a larger request for Housing Infrastructure Bonds (HIBs) and General Obligation (GO) bonds in 2018, and include senior rental housing as a use of the HIBs. With the resources that we have already received, we have effectively leveraged our strong financial and operational capacity.

- We have funded the development or rehabilitation of 2,125 units of affordable housing throughout the state using a little more than \$130 million of the HIB proceeds that we have received since the 2012 bonding bill. When HIBs are issued as private-activity bonds, the projects qualify for federal 4% housing tax credits. With this track record, we have requested \$100 million in HIBs in the 2018 bonding bill. This is our largest request ever because we would like HIBs to also finance rental housing for low-income seniors in addition to the supportive housing, rental preservation, and community land trust activities that are currently eligible.

LEVERAGING OPERATIONAL CAPACITY: IMPLEMENTING AN ONLINE TOOL FOR SUBMITTING FUNDING APPLICATIONS

Prior to the 2017 RFP, multifamily developers had to submit paper applications for competitive RFP funding. This was inefficient for both the developers and our staff. In 2017, we launched our new online application submission tool. The tool not only eliminates paper applications but also provides staff, funding partners, and applicants with current information at their fingertips. The tool creates customized checklists and tracks the completeness of applications. It will also help owners and our staff track milestones as projects move toward loan closing. This year, 55 projects submitted applications through the tool, and all required documents were electronically uploaded. No more paper!

- With the $25.5 million we received from GO bonds in 2012 and 2014, we have funded the rehabilitation of 3,361 units of public housing. For 2018, we are requesting $30 million in GO bond proceeds, which is again our largest request ever.

OVERARCHING ISSUES FOR 2018

There are several overriding issues that we will confront in 2018 that will require us to work at our very best – being flexible, responsive, creative, innovative, and collaborative.

Serving extremely-low-income families and individuals, who have the greatest need for affordable housing. There are far more households in this category (incomes at or below 30 percent of area median income) than there is housing available that they can afford. High costs and insufficient incomes are the primary barriers, and developing or rehabilitating housing for the lowest-income households requires larger subsidies. Consequently, with limited resources, we face the trade off between financing fewer housing units for extremely low-income households or more units for households with slightly higher incomes, who also lack affordable housing.

Addressing the tight rental and homebuyer market. With the rental vacancy rate below 5 percent and the inventory of homes for sale below a five-month supply, housing costs will continue to rise.

Preserving the state's existing affordable housing. As we developed this plan, our partners and stakeholders repeatedly raised the issue of preservation in multiple contexts. Preserving housing with federal project-based rent assistance is one of our strategic priorities, and this chapter highlighted a few other specific needs, including preventing the loss of naturally-occurring affordable housing, rehabilitating small rental properties in Greater Minnesota, and preserving manufactured home parks. However, the need goes well beyond these four issues and applies to all types of existing multifamily and single-family affordable housing.

Allocating scarce resources. The amount of resources available to finance affordable housing does not meet the requests we receive each year. This includes tax-exempt bonding authority. We will continue to look for ways to finance the growing need for affordable housing and balance homeownership and rental options. With so many demands, we will manage tax-exempt bonding authority and all resources strategically.

LEVERAGING FINANCIAL CAPACITY: CREATING MONTHLY PAYMENT LOANS

In December 2012, we launched Monthly Payment Loans (MPLs), which are amortizing loans that provide down-payment and closing-cost assistance. Prior to creating MPLs, we only offered Deferred Payment Loans (DPLs), which are zero-interest, deferred loans. Because DPLs use very scarce state appropriations and Pool 3 funds, we limit their use to the lowest-income households who are ready for successful homeownership. However, we found that households with slightly higher incomes also needed assistance but could afford a small monthly loan repayment. Using less scarce Pool 2 funds, which must generate earnings, we created the MPLs. With this product, we now reach a previously underserved market segment, which contributed to our recent high levels of mortgage lending. Through 2016, more than 4,880 homebuyers have used MPLs. With a strong balance sheet and different pools of Agency-generated funds, we can tailor specific loan products to best meet the needs of different borrowers. (See Appendix A-1 for descriptions of Pools 2 and 3 and how they can be used.)

Monitoring the impact of policy changes. While we must always be attentive to policy changes at the national level, the level of changes may be heightened in the coming year. We will be proactive as policy changes are contemplated and flexible and responsive as changes are implemented.

CHAPTER 3: RESOURCES FOR OUR WORK

The need for affordable housing is growing in Minnesota. Fortunately, through effective financial and program management and strong support from the Governor and Legislature, we are planning to provide over $1.1 billion in housing assistance in 2018, which is a $62 million increase from 2017.

This chapter provides an overview of our 2018 programs and budget. Appendices A and B provide details about our funding and include descriptions of each program.

BUDGET AND PROGRAM OVERVIEW

We provide a wide continuum of options for financing affordable housing, ranging from grants for homelessness prevention and rent assistance to mortgages for home purchase and improvements. As shown in Table 2, three programs account for a majority of the 2018 budget.

- **Home Mortgage Loans** (line 1) will provide $630 million of lending and support an estimated 3,663 homebuyers in 2018.
- **Rental Assistance Contract Administration** (line 20 and 21) will provide nearly $190 million of federal project-based rent assistance for more than 30,000 of the state's lowest income households. With this assistance, households spend no more than 30 percent of their income on rent.
- **Low-Income Housing Tax Credits** (line 13) is our primary program for developing and rehabilitating affordable rental housing. The nearly $9.6 million of credits will generate an estimated $84 million in private equity and leverage other financial resources to construct or rehabilitate about 550 units of affordable rental housing.

Table 2 also shows, by program, the median incomes of the low- and moderate-income households that we served in 2016, which ranged from less than $9,000 to more than $65,000. The statewide median family income in 2016 was $77,100.

Program	Median Income
Supportive housing financed with Housing Infrastructure Bonds (line 31)	$8,796
Rent assistance programs (lines 20 to 25)	$9,186 to $12,636
Home Rehabilitation Loan Program (line 9)	$14,336
Low-Income Housing Tax Credits (line 13)	$21,619
Habitat for Humanity Initiative (line 5)	$37,896
Home Mortgage Loans (line 1)	$52,728
Home Improvement Loan Program (line 8)	$65,666

TABLE 2: 2017 AND 2018 PROGRAM AND BUDGET OVERVIEW

		2017 Original Funding Level	2018 Funding Level	Activity	Median Income Served (2016)	% Served from Communities of Color (2016)
	Homebuyer Financing and Home Refinancing	**$634,700,000**	**$663,000,000**			
1	Home Mortgage Loans	$600,000,000	$630,000,000	First Mortgage	$52,728	30.0%
2	Mortgage Credit Certificates (MCC)	$5,700,000	$1,000,000	Tax Credit on Home Mortgage Interest	$59,777	21.7%
3	Deferred Payment Loans	$15,500,000	$18,500,000	Downpayment and Closing Cost Loans	$44,000	34.3%
4	Monthly Payment Loans	$11,000,000	$11,000,000	Downpayment and Closing Cost Loans	$66,142	29.0%
5	Habitat for Humanity Initiative	$2,500,000	$2,500,000	Homebuyer Financing	$37,896	80.9%
	Homebuyer/Owner Education and Counseling	**$2,767,000**	**$2,802,000**			
6	Homebuyer Education, Counseling & Training (HECAT)	$1,517,000	$1,552,000	Education & Counseling	$35,940	44.0%
7	Enhanced Homeownership Capacity Initiative	$1,250,000	$1,250,000	Education & Counseling	$34,992	87.9%
	Home Improvement Lending	**$22,600,000**	**$24,794,000**			
8	Home Improvement Loan Program	$14,000,000	$15,300,000	Home Improvement Loan	$65,666	9.4%
9	Rehabilitation Loan Program (RLP)	$8,600,000	$9,494,000	Home Improvement Loan	$14,336	10.8%
	Rental Production - New Construction and Rehabilitation	**$125,107,255**	**$133,172,790**			
10	Multifamily First Mortgages	$80,000,000	$70,000,000	Amortizing Loan	$23,667	56.8%
11	Flexible Financing for Capital Costs (FFCC)	$0	$0	Deferred Loan	N/A	N/A
12	Multifamily Flexible Capital Account	$4,500,000	$8,500,000	Deferred Loan	N/A	N/A
13	Low-Income Housing Tax Credits (LIHTC)	$9,546,045	$9,598,835	Investment Tax Credit	$21,619	44.6%
14	National Housing Trust Fund	$3,000,000	$3,118,428	Deferred Loans and Operating Grants	N/A	N/A
15	Preservation - Affordable Rental Investment Fund (PARIF)	$13,900,580	$16,623,916	Primarily Deferred Loan	$13,704	48.3%
16	HOME	$11,518,166	$1,700,000	Deferred Loan	$18,000	35.9%
17	Preservation - Publicly Owned Housing Program (POHP) - GO Bonds	$1,687,858	$12,030,024	Deferred Loan	$11,267	25.2%
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$954,606	$9,601,587	Deferred Loan	$14,255	24.0%
19	Greater Minnesota Workforce Housing Development	$0	$2,000,000	Deferred Loans and Grants	N/A	N/A
	Rental Assistance Contract Administration	**$187,079,695**	**$189,555,000**			
20	Section 8 - Performance Based Contract Administration	$135,000,000	$138,500,000	Rent Assistance	$12,083	37.8%
21	Section 8 - Traditional Contract Administration	$52,000,000	$51,055,000	Rent Assistance	$12,636	28.4%

		2017 Original Funding Level	2018 Funding Level	Activity	Median Income Served (2016)	% Served from Communities of Color (2016)
22	Section 236	$79,695	$0	Interest Rate Reduction	N/A	N/A
	Housing Stability for Vulnerable Populations	**$33,601,038**	**$32,539,903**			
23	Housing Trust Fund (HTF) - Net Activity	$17,963,789	$17,671,234	Rent Assistance and Operating Support	$9,186	65.0%
23a	Funding for new contracts	$33,332,578	$6,889,986			
23b	Adj. to spread contracts over two years	-$15,368,789	$10,781,248			
24	Bridges - Net Activity	$6,339,507	$5,140,000	Rent Assistance	$9,768	32.2%
24a	Funding for new contracts	$9,471,799	$0			
24b	Adj. to spread contracts over two years	-$3,132,292	$5,140,000			
25	Section 811 Supportive Housing Program	$500,000	$660,000	Rent Assistance	N/A	N/A
26	Family Homeless Prevention and Assistance Program (FHPAP) - Net Activity	$8,644,000	$8,893,486	Grants	$12,000	55.8%
26a	Funding for new contracts	$17,288,000	$250,000			
26b	Adj. to spread contracts over two years	-$8,644,000	$8,643,486			
27	Housing Opportunities for Persons with AIDS (HOPWA)	$153,742	$175,184	Grants	$17,344	42.4%
	Rental Portfolio Management	**$2,000,000**	**$2,482,043**			
28	Asset Management	$2,000,000	$2,482,043	Loans & Grants	N/A	N/A
	Multiple Use Resources	**$34,434,779**	**$76,678,015**			
29	Economic Development and Housing/ Challenge (EDHC) - Regular	$24,279,779	$20,653,959	Loans and Grants	MF=$19,760 SF=$38,950	MF=68.7% SF=45.2%
30	Single Family Interim Lending	$1,000,000	$4,400,000	Construction Loan	N/A	N/A
31	Housing Infrastructure Bonds (HIB)	$3,000,000	$45,349,056	Primarily Deferred Loans	SH=$8,796 Pres=$26,069	SH=53.6% Pres=94.5%
32	Community-Owned Manufactured Home Parks	$2,000,000	$2,250,000	Amortizing Loans	N/A	N/A
33	Technical Assistance and Operating Support	$2,655,000	$2,525,000	Grants	N/A	N/A
34	Strategic Priority Contingency Fund	$1,500,000	$1,500,000	Loans & Grants	N/A	N/A
	Other	**$23,089,629**	**$1,960,314**			
35	Manufactured Home Relocation Trust Fund	$1,163,695	$459,837	Grants	N/A	N/A
36	Organizational Investments / Loans	$10,000,000	$0	Investments / Loans	N/A	N/A
37	Strategic Investments / Loans	$10,000,000	TBD	Investments / Loans	N/A	N/A
38	Disaster Relief Contingency Fund	$1,925,934	$1,500,477	Loans & Grants	N/A	N/A
	Total	**$1,065,379,396**	**$1,126,984,065**			

NOTE: The section of the table addressing "Housing Stability for Vulnerable Populations" has adjustments to reflect the two-year contracts for these programs. (See lines 23-26.) All funds are committed in the first year of the contract, but activities are carried out over the two years of the contract. The "a" part of the program line shows all the funds that will be committed to execute the contract, while the "b" part is an adjustment to spread out the activities over the two years of the contract. The "Net Activity" line (the part without a letter) shows the net level of activity in a year after the adjustment. The Family Homeless Prevention and Assistance Program (line 26) is the simplest example. In 2017, we originally expected to commit $17,288,000 for the two-year contracts (line 26a). To reflect program activity, half of those funds ($8,644,000) would have been shifted out of 2017 (the negative number in line 26b) and into 2018. The net effect is the $8,644,000 million of program activity in 2017 (top part of line 29). The 2018 net activity line is a little different because of contract adjustments and $250,000 being available for Homework Starts with Home, which is also split over 2018 and 2019. While displaying both funding and program activity adds a level of complexity, it is necessary. The "a" line is needed from a budgeting perspective to show the funds that are needed to enter into a contract, while the "Net Activity" line more accurately reflects annual program activity.

There are three primary funding changes between the 2017 and 2018 AHPs.

- **In 2018, we expect home mortgage lending to be $30 million higher than originally forecasted in 2017 (line 1).** In 2017, we originally forecasted $600 million for lending, which was the level we achieved in 2016. Since then, we have adjusted our downpayment and closing-cost loan programs (Deferred Payments Loans and Monthly Payment Loans) to be better aligned with market needs and have provided strong outreach and marketing for our mortgages. As a result, production has increased, and we now expect to reach to $650 million in 2017. However, reaching that level again in 2018 will be challenging due to the limited supply of affordable homes for sale and the prospect of rising interest rates. In the Twin Cities metro area, the months-supply of homes selling for less than $250,000 is just 1.6 months.[19] For comparison, a five-month supply is considered a balanced market.
- **We are budgeting $53 million more from state bond proceeds (lines 17 and 31).** The 2017 Legislature authorized another $10 million in General Obligation Bond proceeds for Public Housing and $55 million in Housing Infrastructure Bond (HIB) proceeds. Through an early award process, we allocated $13.5 of the HIB proceeds in 2017, leaving $41.5 million of the new HIB resources for 2018. We combined these new bond resources with several million dollars of unused proceeds from previous years and repayments from previous awards.
- **Last year, we budgeted $20 million to address two housing issues – community development and preserving naturally-occurring affordable housing – which are not included in the 2018 AHP (lines 36 and 37).** In 2017, we planned to make a one-time $10 million loan to support foreclosure remediation and strategic land acquisition for housing development. We also budgeted up to $10 million for an investment to preserve naturally-occurring affordable housing through the Greater Minnesota Housing Fund; and on June 1, 2017, we formally committed an amount not to exceed $5 million. We are currently evaluating what our ongoing role should be in preventing the loss of naturally-occurring affordable housing and will make decisions about next steps, including funding options, at a later date. In addition, other strategic investment and lending opportunities may arise during the year, and we will allocate additional funds if and when the opportunities occur.

The funding levels shown in Table 2 for amortizing loans (including Home Mortgages, Monthly Payment Loans, Home Improvement Loans, Multifamily First Mortgages, and Strategic Investments / Loans) should be viewed as forecasts of expected lending volumes, rather than a fixed budget. Demand and need for these loans will largely determine the amount of funds used.

There are a few other notable changes in Table 2 that will not have a significant impact on the overall direction that we will take in 2018, but they are important for people interested in these specific programs.

- **With the scarcity of tax-exempt bonding authority, we are ending the Mortgage Credit Certificate (MCC) program (line 2).** The program used tax-exempt bonding authority that would otherwise have been lost to provide eligible first-time homebuyers a special tax credit on a portion of their mortgage interest payments. The $1 million available in 2018 is the last of the MCC resources, which came from previously converted bonding authority.
- **The Multifamily First Mortgage budget is $10 million lower than last year (line 10).** In recent years, we have fallen short of committing the full Multifamily First Mortgage budget; thus, we are "right-sizing" the budget to align with actual expectations. However, with a more deliberate business development model, our goal is to commit all the funds in 2018 and increase actual activity

above previous years.

- **HOME funding appears to be $10 million lower than last year (line 16).** Traditionally, we budget new HOME funds ($6 million) at the start of the AHP, which is before the federal appropriation is finalized. However, this year, we will wait to budget the 2018 HOME funds until there is more certainty about the amount we will receive. In 2018, we also have a much smaller balance of unused funds from previous years.
- **The budget for the Rental Rehabilitation Deferred Loan (RRDL) program is $9 million higher in 2018 (line 18).** Because we run the Request for Proposal (RFP) process for this program every other year, funding has a two-year cycle – with most of the funds committed in the first year of the biennium and fewer funds committed in the second year.
- **We have assumed responsibility for the Greater Minnesota Workforce Housing Development program from the Department of Employment and Economic Development (line 19).** The annual appropriation is $2 million.
- **We are budgeting $4 million less under the Economic Development and Housing/Challenge program (line 29).** The $20 million available in 2018 is a more typical funding level. The $24 million available in 2017 was larger than normal because we achieved a one-time boost by starting the practice of forward budgeting $6 million of the following year's funding (e.g. budgeting $6 million of 2018 funds in 2017, $6 million of 2019 funds in 2018, etc.).

HOUSEHOLD AND UNIT PROJECTIONS

We expect to assist more than 68,000 households in 2018.

TABLE 3: 2018 FORECAST OF ASSISTED HOUSEHOLDS OR HOUSING UNITS, BY PROGRAM

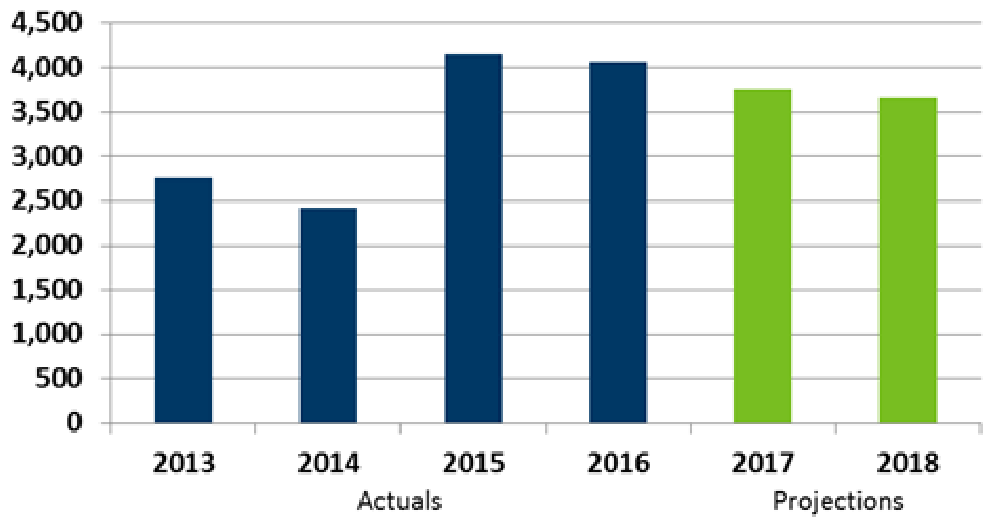
	Program	Households or Units
Homebuyer Financing and Home Refinancing		**3,692**
1	Home Mortgage Loans	3,663
2	Mortgage Credit Certificates (MCC)	Included in First Mortgage Count
3	Deferred Payment Loans	
4	Monthly Payment Loans	
5	Habitat for Humanity Initiative	29
Homebuyer/Owner Education & Counseling		**16,776**
6	Homebuyer Education, Counseling & Training (HECAT)	15,850
7	Enhanced Homeownership Capacity Initiative	926
Home Improvement Lending		**1,207**
8	Home Improvement Loan Program	827
9	Rehabilitation Loan Program (RLP)	380
Rental Production- New Construction and Rehabilitation		**4,073**
10	Multifamily RFP/HTC/Pipeline Production	1,655
11	First Mortgage - Low and Moderate Income Rental (LMIR)	Part of RFP/HTC/ Pipeline Total
12	First-Mortgage - MAP Lending (Multifamily Accelerated Processing)	
13	Flexible Financing for Capital Costs (FFCC)	
14	Multifamily Flexible Capital Account	
15	Low-Income Housing Tax Credits (LIHTC)	
16	National Housing Trust Fund	
17	Housing Infrastructure Bonds (HIB) - Multifamily RFP	
18	Economic Development and Housing/ Challenge (EDHC)	
19	Preservation - Affordable Rental Investment Fund (PARIF)	
20	HOME	
21	Preservation - Publicly Owned Housing Program (POHP)	1,504
22	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	835
23	Greater Minnesota Workforce Housing Development	80

	Program	Households or Units
Rental Assistance Contract Administration		**30,300**
24	Section 8 - Performance Based Contract Administration	21,390
25	Section 8 - Traditional Contract Administration	8,910
Housing Stability for Vulnerable Populations		**11,716**
26	Housing Trust Fund (HTF)	3,411
27	Bridges	900
28	Section 811 Supportive Housing Program	105
29	Family Homeless Prevention and Assistance Program (FHPAP)	7,115
30	Housing Opportunities for Persons with AIDS (HOPWA)	184
Rental Portfolio Management		**364**
31	Asset Management	364
Multiple Use Resources		**554**
32	EDHC - Single Family RFP	364
33	Single Family Interim Lending	Part of EDHC RFP
34	Housing Infrastructure Bonds (HIB) - Community Land Trusts	40
35	Community-Owned Manufactured Home Parks	150
36	Technical Assistance and Operating Support	N/A
37	Strategic Priority Contingency Fund	TBD
Other		**0**
38	Manufactured Home Relocation Trust Fund	TBD
39	Disaster Relief Contingency Fund	TBD
Total		**68,682**

HOMEBUYER FINANCING AND HOME REFINANCING

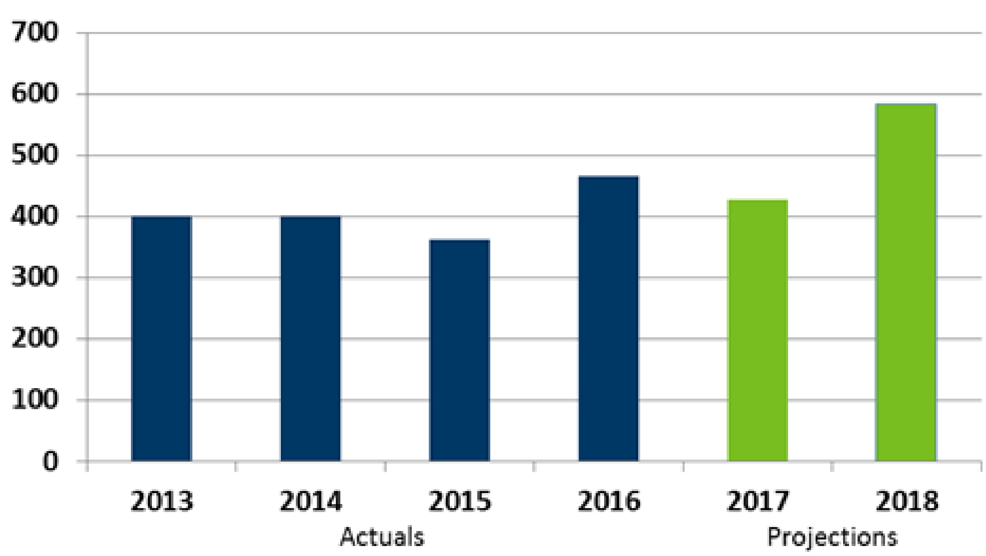
Figure 11 shows our historical production for home mortgage loans, which was about 2,500 mortgages in 2013 and 2014. Our lending then took off in 2015, reaching 4,000 mortgages, and has declined slightly since then. A tight supply of homes, rising prices, and regulatory changes have constrained lending activity.

FIGURE 11: HOUSEHOLDS/HOME ASSISTED – HOME MORTGAGE LOANS



In 2018, we expect to serve just under 600 households under "other homeownership opportunities", which is higher than previous years with the availability of Housing Infrastructure Bonds and more Single Family Interim Lending. (Figure 12 includes the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program, Housing Infrastructure Bond proceeds going to community land trusts, Single Family Interim Lending, and Community-Owned Manufactured Home Parks.)

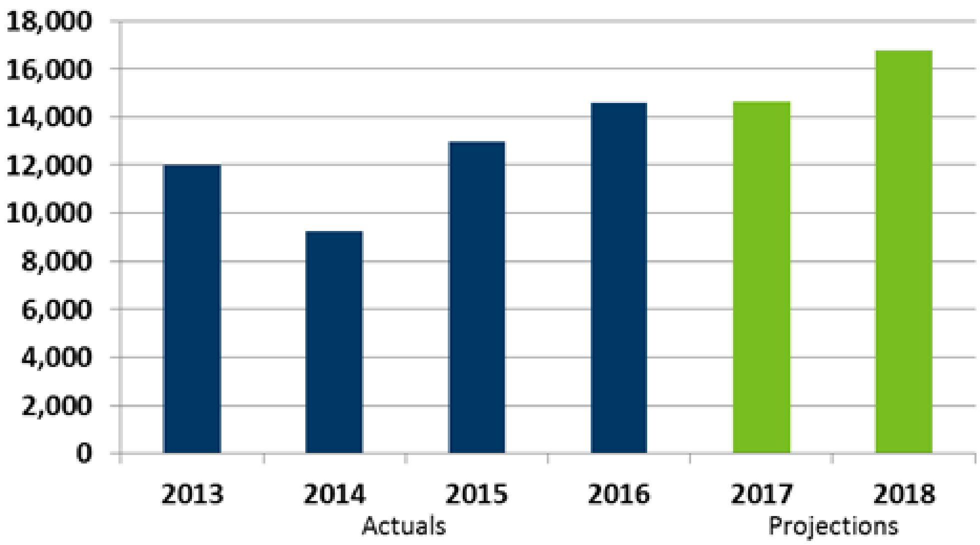
FIGURE 12: HOUSEHOLDS/HOMES ASSISTED – OTHER HOMEOWNERSHIP OPPORTUNITIES



HOMEBUYER/OWNER EDUCATION, COUNSELING, AND COACHING

As shown in Figure 13, the decline in households served in 2013 and 2014 reflects the declining need for foreclosure counseling, while the need for homebuyer education continues. The number of households assisted increased in 2015 with the addition of the Homeownership Center's online course called Framework, which is an alternative to traditional classroom training. (Figure 13 includes Homebuyer Education, Counseling & Training (HECAT) and the Enhanced Homeownership Capacity Initiative.)

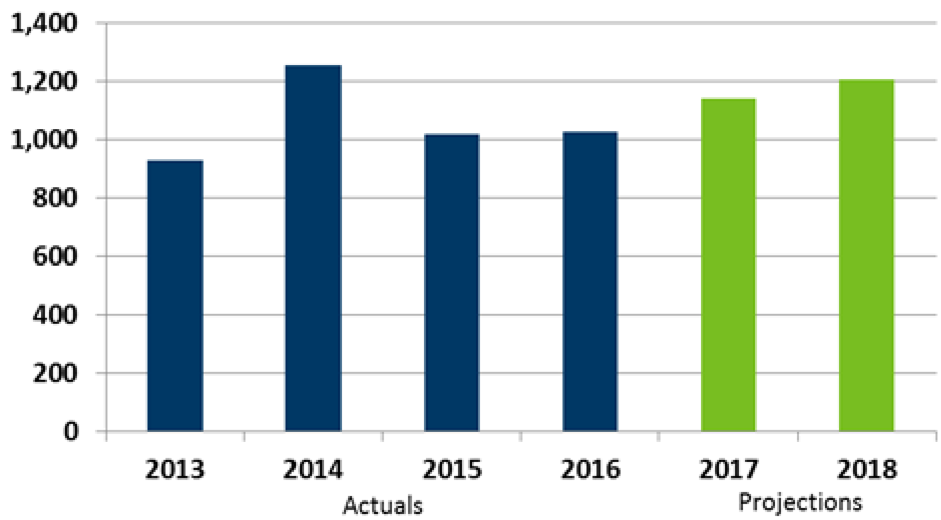
FIGURE 13: HOUSEHOLDS ASSISTED – HOMEBUYER/OWNER EDUCATION AND COUNSELING



HOME IMPROVEMENT LENDING

Home improvement production (Figure 14) was limited after the recession. Since then, production has increased, but the availability of home equity lines of credit and cash from mortgage refinancing has limited demand for our installment loans. Activity in 2014 was particularly strong because of a special program offering that our largest lender ran at the State Fair. (Figure 14 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

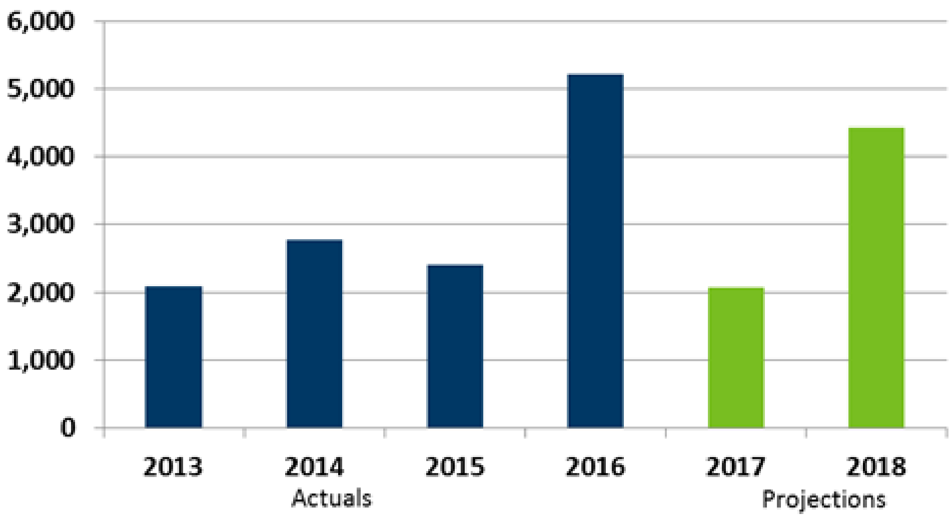
FIGURE 14: HOUSEHOLDS/HOMES ASSISTED – HOME IMPROVEMENT PROGRAMS



RENTAL PRODUCTION AND PORTFOLIO MANAGEMENT

In a typical year, rental unit production varies between 2,000 and 3,000 units, but we expect production to reach over 4,000 in 2018 with the availability of $45 million in Housing Infrastructure Bond (HIB) proceeds and $12 million in General Obligation Bond proceeds. Activity in 2016 was also particularly high with the completion of developments that received the last major round of bond proceeds ($100 million). Production in 2018 will be tempered a little because we will likely fund more new construction projects than we did a few years ago. New construction projects require more funding per unit, which limits the number of assisted units. (Figure 15 captures all the programs in the rental production area, the multifamily portion of the Economic Development and Housing/Challenge and Housing Infrastructure Bond programs, and all the activity in the rental portfolio management category.)

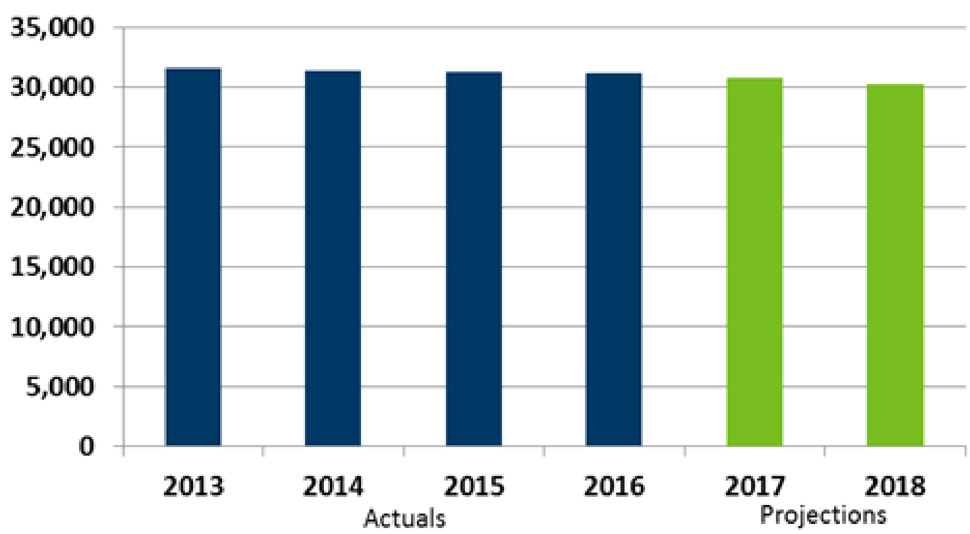
FIGURE 15: UNITS ASSISTED - RENTAL PRODUCTION AND PORTFOLIO MANAGEMENT



RENTAL ASSISTANCE CONTRACT ADMINISTRATION

Activity in the Section 8 and Section 236 contract administration has been very steady (Figure 16). These are ongoing contracts that we administer, and the number of households served does not vary significantly from year to year. With the last Section 236 mortgages maturing last year, that program has now closed out. It became a small program in recent years as it wound down.

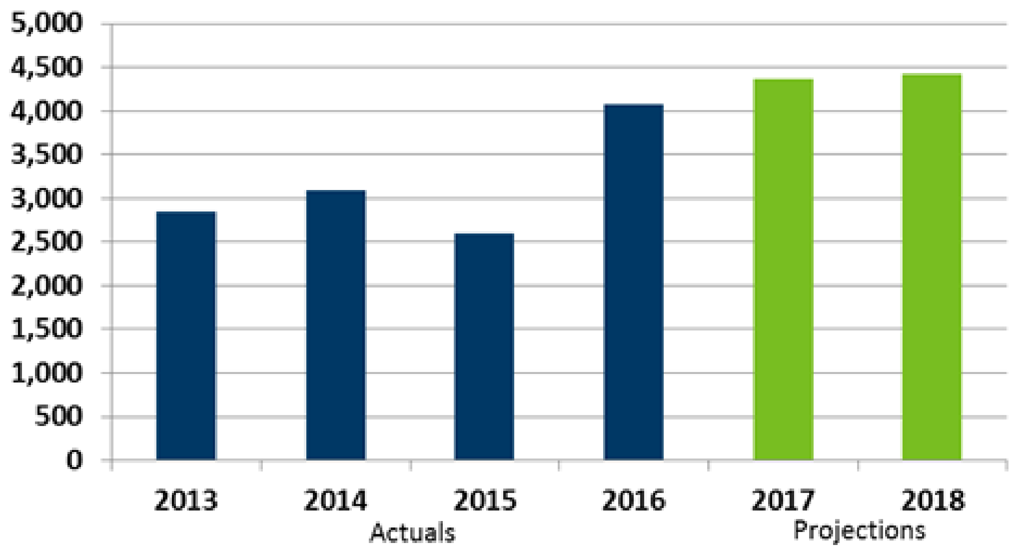
FIGURE 16: HOUSEHOLDS ASSISTED – RENTAL ASSISTANCE CONTRACT ADMINISTRATION



HOUSING STABILITY FOR VULNERABLE POPULATIONS

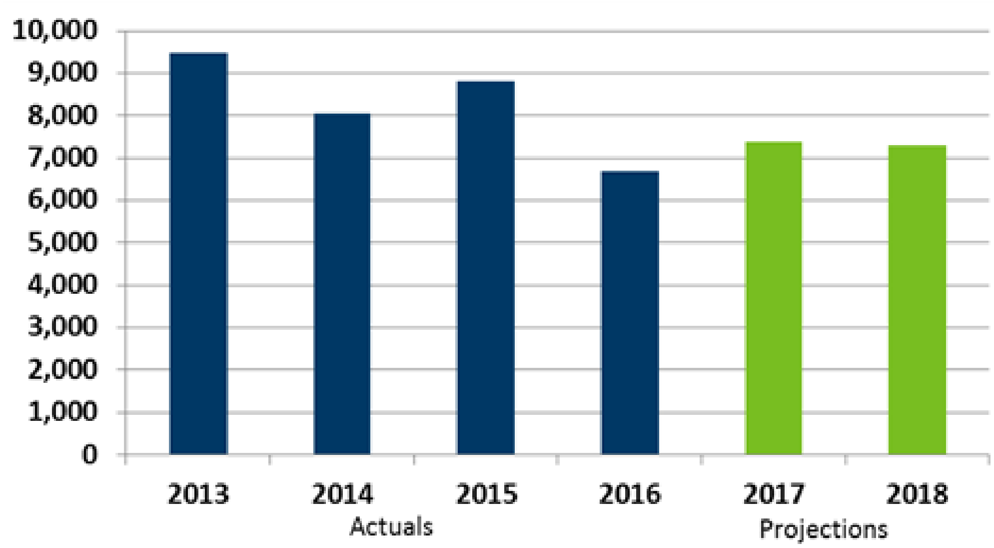
Since 2012, there has been an increase in activity for state- and Agency-funded rent assistance and operating subsidies (Figure 17). Starting with the 2016-17 biennium, we have received an additional $2.5 million for the Bridges program (rent assistance for people with very low incomes and a serious mental illness). We have also increased activity under Housing Trust Fund rent assistance, with most of the new activity focused on pilot programs that test new approaches. Finally, we have added the Section 811 program that serves people with disabilities. (Figure 17 includes those three programs and Housing Trust Fund operating subsidies.)

FIGURE 17: HOUSEHOLDS/UNITS ASSISTED – AGENCY RENTAL AND OPERATING ASSISTANCE



The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and Housing Opportunities for Persons with AIDS (HOPWA) (Figure 18) has declined in recent years because FHPAP has targeted harder-to-serve clients, which requires more funding per household.

FIGURE 18: HOUSEHOLD ASSISTED – TARGETED ASSISTANCE – FHPAP AND HOPWA



NOTES

[1]Minnesota Housing and analysis of U.S. Census Bureau's Decennial Census (2000) and American Community Survey (2016, one-year sample).

[2]Minnesota Housing analysis of the U.S. Census Bureau's American Community Survey (2016, one-year sample).

[3]Minnesota Housing analysis of Census Bureau's Decennial Census (2000) and American Community Survey (2001 to 2016, one-year samples).

[4]Minnesota Housing analysis of Costar data.

[5]Minnesota Housing analysis of data from CoStar; accessed July 15, 2017.

[6]Marquette Advisors, Apartment Trends (4th Quarter 2016). The data compares the 4th quarters of 2015 and 2016.

[7]Minnesota Housing analysis of data from CoStar; accessed July 15, 2017.

[8]Minnesota REALTORS, June 2017 Housing Report; and Minneapolis Area Association of REALTORS, June 2017 Monthly Indicators and correspondence. The figure for homes that are $250,000 or less is not seasonally adjusted.

[9]Minnesota REALTORS, June 2017 Housing Report; and Minneapolis Area Association of REALTORS, June 2017 Monthly Indicators and correspondence.

[10]Minnesota Housing analysis of the U.S. Census Bureau's American Community Survey (2016, one-year sample).

[11]Minnesota Housing analysis of the U.S. Census Bureau's American Community Survey (2015, one-year sample); and Minnesota's 2017 Homeless Point-in-Time Count for the U.S. Department of Housing and Urban Development.

[12]Correspondence with the Metro Housing and Redevelopment Authority, April 7, 2017.

[13]Board of Governors of the Federal Reserve System, Report on the Economic Well-Being if U.S. Households in 2016, (Washington, D.C., 2017), p. 40.

[14]Board of Governors of the Federal Reserve System, Report on the Economic Well-Being if U.S. Households in 2016, (Washington, D.C., 2017), p. 40.

[15]Minnesota Housing analysis of U.S. Census Bureau, American Community Survey (2015, one-year sample), IPUMS-USA, University of Minnesota.

[16]Minnesota Housing analysis of U.S. Census Bureau, American Community Survey (2015, one-year sample), IPUMS-USA, University of Minnesota.

[17]Freddie Mac, 30-Year Fixed-Rate Mortgages Since 1971; http://www.freddiemac.com/pmms/pmms30.html; accessed July 28, 2017. The rates apply to June 2017 and June 2007.

[18]The limits apply to rural Minnesota. Metropolitan areas have higher limits.

[19]Minneapolis Areas Association of Realtors, email from David Arbit, July 27, 2017. The figures are from June of each year and not seasonally adjusted.

APPENDIX A-1:
OVERVIEW OF FUNDING SOURCES

Our strong balance sheet and financial resources are a key strength. This Appendix describes each of our funding sources and outlines how we will use them in 2018. Table 4 shows the 2018 AHP budget by funding source and compares it with the original 2017 AHP. Appendix A-2 is a crosswalk that shows how we are allocating resources from each source to each program.

TABLE 4: 2018 AHP BUDGET BY FUNDING SOURCE

Program Category	Original 2017 AHP	Proposed 2018 AHP
Federal Resources	$213,797,648	$207,289,490
State Appropriated Resources	$84,694,391	$93,407,123
State Capital Investments (GO & Housing Infrastructure Bonds)	$4,687,858	$57,379,080
Agency Bond Proceeds and Other Mortgage Capital	$660,700,000	$676,000,000
Housing Investment Fund (Pool 2)	$74,227,500	$59,200,000
Housing Affordability Fund (Pool 3)	$27,272,000	$33,708,373
Total	**$1,065,379,397**	**$1,126,984,065**

KEY CHANGES BY SOURCE

- **Federal Resources** are $6.5 million lower in 2018, primarily because we will not budget new 2018 HOME funds until there is more certainty with the appropriation level.
- **State Appropriated Resources** are $8.7 million higher, primarily because we administer the RFP for the $9 million Rental Rehabilitation Deferred Loan (RRDL) program every other year, and this is an RFP year. Strong loan repayments (particularly for the Preservation – Affordable Rental Investment Fund program) offset a decrease in the budget for the Economic Development and Housing/Challenge (EDHC) program. In the 2017 AHP, we created a one-time boost in the EDHC budget by starting the practice of forward budgeting $6 million of the following year's EDHC appropriation (e.g. budgeting $6 million of 2018 funds in the 2017 AHP, $6 million of 2019 funds in 2018 AHP, etc.).
- **State Capital Investments (General Obligation and Housing Infrastructure Bonds)** will increase by about $52.7 million with the bonding bill passed by the 2017 Legislature. A portion of the funds from the bonding bill was committed in 2017 to a project that qualified for an early award.
- **Agency Bond Proceeds & Other Mortgage Capital** are projected to increase by about $15.3 million. As discussed earlier, we are forecasting home mortgage lending to be $30 million higher than we originally forecasted last year and our multifamily first mortgage activity to be $10 million lower. We are also ending the Mortgage Credit Certificate (MCC) program, which converted tax-exempt bonding authority that would have otherwise been lost into income tax credits for a portion of the mortgage interest paid by eligible first-time homebuyers. While the 2017 MCC program had a $5.7 million budget, it will only be $1.0 million this year as the last resources are used.
- **Housing Investment Fund (Pool 2)** investments will decrease by $15.0 million. Last year, we budgeted $20 million for two one-time investments that we do not plan to replicate in 2018. However, as other investment opportunities that advance our mission arise, we can increase the use of Pool 2 funding. Strategic investments/loans (along the line of our 2017 investment in the preservation of naturally-occurring affordable housing), the implementation of our business development plan for multifamily first mortgage lending, and the refinement

our Home Improvement Loan Program are three potential examples that may lead to the use of additional resources from Pool 2.

- **Housing Affordability Fund (Pool 3)** investments will increase by $6.4 million, which includes $1.9 million more for downpayment and closing-cost loans to support home mortgage lending and $4.0 million more for the Multifamily Flexible Capital Account to support multifamily production and asset management.

The six funding sources operate as described below. The precise amount of some resources is known at the time this plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the year. Staff uses various analytical approaches (including fund cash flow analysis) to project the amount of resources available for housing programs.

FUNDING SOURCE DESCRIPTIONS

- **Federal Resources:** There are various types of federal resources, including appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing and Low-Income Housing Tax Credits from the Internal Revenue Service (IRS). For planning purposes, we generally assume that 2018 funding will remain at its 2017 level; however, as described earlier, we will not budget the 2018 HOME funds until there is more certainty with the appropriation level. The amount of federal housing tax credits is based on a per capita formula and may vary slightly each year.
- **State Appropriations:** The amount of funding is based on the 2018-19 general fund budget adopted by the 2017 Minnesota Legislature. We generally split the appropriations evenly between state fiscal years 2018 and 2019, unless otherwise noted. Repayments of loans from previous year appropriations are also a funding source.
- **State Capital Investments:** These funds come from the state capital budget (bonding bill) and include General Obligation (GO) Bond and Housing Infrastructure Bond (HIB) proceeds. We are budgeting all the available authority for the 2018 program year.
- **Agency Bond Proceeds and Other Mortgage Capital:** Bond proceeds are generated by the issuance of tax-exempt and taxable bonds. Certain tax-exempt bonding activity is limited statewide by IRS rules, which cap the amount of new issuance. In the recent past, market conditions made it difficult to use all the available bonding authority. However, conditions have changed dramatically, and tax-exempt bonding authority is once again a limited resource. We can also sell our mortgage-backed securities on the secondary market. Finally, we are a MAP (Multifamily Accelerated Processing) lender, which allows us to originate FHA-insured multifamily mortgages that are financed through a third-party investor.
- **Agency Resources:** We generate earnings from our lending and investment activities and make them available for use in wide variety of housing programs. Agency resources are currently categorized as follows:
  - **Housing Investment Fund (Pool 2):** Most of our investment-earning assets are carried in the Housing Investment Fund, and most assets in Pool 2 produce revenue that supports our operations and programs. We can transfer Pool 2 earnings to Pool 3 only to the extent that we project that our aggregate net position will satisfy our Board policy and rating agency stress tests. The earning assets that use Pool 2 are required to be investment grade quality. Accordingly, the planned allocation of Pool 2 funds in a given AHP is primarily determined by the expected market opportunities that meet those loan and investment quality considerations and the projected earnings and net asset requirements for the future.

- **Housing Affordability Fund (Pool 3):** Pool 3 resources come from: (1) transfers from Pool 2 that capture a portion of the Agency's earnings, and (2) repayments or prepayments from loans previously funded under Pool 3. Because Pool 3 has no earnings requirements, it is more flexible than Pool 2 and can be used for deferred loans and grants, making it a resource in high demand. However, Pool 3 is a more limited resource than Pool 2 because it is dependent on the transfer of earnings from Pool 2.

  With Pool 3's flexibility, we address statewide rental and homeownership needs that outpace the state and federal resources that are available. For example, in this AHP, 20 percent of resources from state appropriations support homeownership programs and 80 percent support rental programs.[1] To help address this difference, we are budgeting 72 percent of Pool 3 resources to homeownership activities, primarily down-payment and closing-cost loans, which are critical for addressing Minnesota's homeownership disparity.[2]

  In Table 5, we present the original 2017 Pool 3 budget, the amount of those funds that we now expect to commit in 2017, and the 2018 Pool 3 budget.

TABLE 5: POOL 3 BUDGET AND ACTIVITY

Program Category	2017 Original AHP	Current Forecast for 2017 Commitments*	2018 AHP
Homebuyer Financing and Home Refinancing			
Deferred Payment Loans	$12,215,000	$15,125,700	$14,115,000
Habitat for Humanity Initiative	$1,000,000	$0	$1,000,000
Homebuyer/Owner Education & Counseling			
Enhanced Homeownership Capacity Initiative	$750,000	$683,175	$750,000
Home Improvement Lending			
Home Improvement Loan Program	$272,500	$225,000	$0
Rehabilitation Loan Program	$4,828,000	$4,828,000	$5,722,000
Rental Production - New Construction and Rehabilitation			
Multifamily Flexible Capital Account	$4,500,000	$4,208,496	$8,500,000
Housing Stability for Vulnerable Populations			
Bridges	$226,500	$0	$0
Family Homeless Prevention and Assistance Program	$0	$21,373	$21,373
Multiple Use Resources			
Community-Owned Manufactured Home Parks	$0	$0	$250,000
Technical Assistance and Operating Support	$1,980,000	$1,773,987	$1,850,000
Strategic Priority Contingency Fund	$1,500,000	$0	$1,500,000
Total	**$27,272,000**	**$26,865,731**	**$33,708,373**

*Within the 2017 budget, we recently transferred Pool 3 funds that would have otherwise gone unused by other programs to Deferred Payment Loans and the Family Homeless Prevent and Assistance Program, allowing those two programs to commit more than their original budget.

[1]These percentages exclude funding for Technical Assistance and Operating Support, Manufactured Home Relocation Trust Fund, and Disaster Relief Contingency Fund, which do not clearly fall into the homeownership and renter split.

[2]These percentages exclude funding for Technical Assistance and Operating Support and the Strategic Priority Contingency Funds, which do not clearly fall into the homeownership and renter split.

APPENDIX A-2:

2018 PROGRAM BUDGET BY SOURCE

		2018 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2)	Housing Affordability Fund (Pool 3)
	Homebuyer Financing and Home Refinancing	**$663,000,000**	**$0**	**$4,385,000**	**$0**	**$631,000,000**	**$12,500,000**	**$15,115,000**
1	Home Mortgage Loans	$630,000,000				$630,000,000		
2	Mortgage Credit Certificates (MCC)	$1,000,000				$1,000,000		
3	Deferred Payment Loans	$18,500,000		$4,385,000				$14,115,000
4	Monthly Payment Loans	$11,000,000					$11,000,000	
5	Habitat for Humanity Initiative	$2,500,000					$1,500,000	$1,000,000
	Homebuyer/Owner Education and Counseling	**$2,802,000**	**$0**	**$2,052,000**	**$0**	**$0**	**$0**	**$750,000**
6	Homebuyer Education, Counseling & Training (HECAT)	$1,552,000		$1,552,000				
7	Enhanced Homeownership Capacity Initiative	$1,250,000		$500,000				$750,000
	Home Improvement Lending	**$24,794,000**	**$0**	**$3,772,000**	**$0**	**$0**	**$15,300,000**	**$5,722,000**
8	Home Improvement Loan Program	$15,300,000					$15,300,000	
9	Rehabilitation Loan Program (RLP)	$9,494,000		$3,772,000				$5,722,000
	Rental Production - New Construction and Rehabilitation	**$133,172,790**	**$14,417,263**	**$28,225,503**	**$12,030,024**	**$45,000,000**	**$25,000,000**	**$8,500,000**
10	Multifamily First Mortgage	$70,000,000				$45,000,000	$25,000,000	
11	Flexible Financing for Capital Costs (FFCC)	$0						$0
12	Multifamily Flexible Capital Account	$8,500,000						$8,500,000
13	Low-Income Housing Tax Credits (LIHTC)	$9,598,835	$9,598,835					
14	National Housing Trust Fund	$3,118,428	$3,118,428					
15	Preservation Affordable Rental Investment Fund (PARIF)	$16,623,916		$16,623,916				
16	HOME	$1,700,000	$1,700,000					

		2018 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2)	Housing Affordability Fund (Pool 3)
17	Preservation - Publicly Owned Housing Program (POHP)	$12,030,024			$12,030,024			
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$9,601,587		$9,601,587				
19	Greater Minnesota Workforce Housing Development	$2,000,000		$2,000,000				
	Rental Assistance Contract Administration	**$189,555,000**	**$189,555,000**	**$0**	**$0**	**$0**	**$0**	**$0**
20	Section 8 - Performance Based Contract Administration	$138,500,000	$138,500,000					
21	Section 8 - Traditional Contract Administration	$51,055,000	$51,055,000					
	Housing Stability for Vulnerable Populations	**$32,539,903**	**$835,184**	**$31,683,347**	**$0**	**$0**	**$0**	**$21,373**
22	Housing Trust Fund (HTF) - Net Activity	$17,671,234		$17,671,234				$0
22a	Funding for new contracts	$6,889,986		$6,889,986				
22b	Adj. to spread two-year contracts over two years	$10,781,248		$10,781,248				
23	Bridges - Net Activity	$5,140,000		$5,140,000				$0
23a	Funding for new contracts	$0		$0				
23b	Adj. to spread two-year contracts over two years	$5,140,000		$5,140,000				$0
24	Section 811 Supportive Housing Program	$660,000	$660,000					
25	Family Homeless Prevention and Assistance Program (FHPAP) - Net Activity	$8,893,486		$8,872,113				$21,373
25a	Funding for new contracts	$250,000		$250,000				$0
25b	Adj. to spread two-year contracts over two years	$8,643,486		$8,622,113				$21,373
26	Housing Opportunities for Persons with AIDS (HOPWA)	$175,184	$175,184					

		2018 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2)	Housing Affordability Fund (Pool 3)
	Rental Portfolio Management	**$2,482,043**	**$2,482,043**	**$0**	**$0**	**$0**	**$0**	**$0**
27	Asset Management	$2,482,043	$2,482,043					$0
	Multiple Use Resources	**$76,678,015**	**$0**	**$21,328,959**	**$45,349,056**	**$0**	**$6,400,000**	**$3,600,000**
28	Economic Development and Housing/Challenge (EDHC) - Regular	$20,653,959		$20,653,959				
29	Single Family Interim Lending	$4,400,000					$4,400,000	
30	Housing Infrastructure Bonds	$45,349,056			$45,349,056			
31	Community-Owned Manufactured Home Parks	$2,250,000					$2,000,000	$250,000
32	Technical Assistance and Operating Support	$2,525,000		$675,000				$1,850,000
33	Strategic Priority Contingency Fund	$1,500,000						$1,500,000
	Other	**$1,960,314**	**$0**	**$1,960,314**	**$0**	**$0**	**$0**	**$0**
34	Manufactured Home Relocation Trust Fund	$459,837		$459,837				
35	Strategic Investments/Loans	TBD					TBD	
36	Disaster Relief Contingency Fund	$1,500,477		$1,500,477				
	2018 Proposed AHP Total	**$1,126,984,065**	**$207,289,490**	**$93,407,123**	**$57,379,080**	**$676,000,000**	**$59,200,000**	**$33,708,373**

APPENDIX B:
PROGRAM DESCRIPTIONS

CONTENTS

MULTIPLE USE RESOURCES

OTHER

NOTES ON READING THE PROGRAM DESCRIPTIONS:

- “Housing Investment Fund” and “Pool 2” refer to the same resource.
- “Housing Affordability Fund” and “Pool 3” refer to the same resource.
- The sum of the projections for the number of housing units or households assisted by individual programs during the plan period exceed the total number of households projected to be served across all programs. This occurs because some households or housing units will receive assistance from multiple programs to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation and program trends.
- Several programs have multiple funding sources, which may necessitate some differences in program rules depending on the funding sources.
- The tables in the narratives show funds available for commitment in 2018.

HOMEBUYER FINANCING AND HOME REFINANCING

HOME MORTGAGE LOANS

We offer three home mortgage programs. The first two (Start Up and MCC with first mortgage programs[1]) serve first-time homebuyers; the third (Step Up) assists current homeowners refinancing or purchasing homes. Under the programs, participating lenders originate fully-amortizing first mortgages throughout the state. To support home mortgage borrowers, we also offer downpayment and closing-cost loans that are structured to meet the needs of low- and moderate-income homeowners.

In our current business model for homeownership, we access capital to finance the purchase of mortgage-backed securities containing program mortgages by selling bonds and/or selling our mortgage-backed securities on the secondary market.

We remain committed through our programs to serve households of color or Hispanic ethnicity and households with incomes below 80 percent of area median income.

Current household income limits for first-time buyers:

Property Location	Maximum Household Income	
	1-2 person	3 or more
Minneapolis/St. Paul (11-county area)	$90,400	$103,900
Dodge and Olmsted Counties	$88,600	$101,800
Balance of State	$80,400	$92,400

Current income limits for repeat buyers and refinancing:

Property Location	Maximum
Minneapolis/St. Paul (11-county area)	$135,100
Dodge and Olmsted Counties	$135,100
Balance of State	$120,200

Purchase price limits:

Property Location	Maximum
Minneapolis/St. Paul (11-county area)	$306,000
Balance of State	$253,800

[1]We anticipate a limited amount of funds may be available through the Mortgage Credit Certificates Program (MCC) until funding is exhausted or December 31, 2017, whichever occurs first. See the MCC Program write-up.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, we financed:

- 4,063 loans
- $625,852,927 total loan amount
- $154,037 average loan amount
- Median household income of borrowers was $52,728 or 68 percent of the statewide median income
- 30 percent were households of color or Hispanic ethnicity

Our home mortgage programs are experiencing high production, which is heavily supported by downpayment and closing-cost loans. Ninety-two percent of home mortgage borrowers use some type of downpayment and closing-cost loan, which is comparable with other top-producing housing finance agencies nationally.

Proposal for 2018

With the amount of funds requested to support downpayment and closing-cost loans, the 2018 home mortgage production forecast is $630 million. This would be a similar level of production as we expect to achieve in 2017, which increased from an original forecast of $600 million to $650 million. If production strengthens, we will need additional funds in 2018 or program changes for downpayment and closing-cost loans.

Based on resources available for new activity in 2018, we expect to finance loans for 3,663 households. Reducing the homeownership disparity for households of color or Hispanic ethnicity with these resources will continue to be a priority in 2018.

Program Funding by Source

Source	Amount
Agency Bond Proceeds and Other Mortgage Capital	$630,000,000
2018 Total	$630,000,000
2017 Original Total	$600,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 3; Minn. Stat. §462A.073; Minn. Rules, Parts 4900.3200-3290; IRC §143

MORTGAGE CREDIT CERTIFICATES (MCCS)

The Internal Revenue Service permits state housing finance agencies to convert mortgage revenue bond (MRB) authority into Mortgage Credit Certificates (MCCs) for first-time homebuyers. MCCs make homeownership more affordable by allowing eligible homebuyers to claim a nonrefundable tax credit for a percentage of their mortgage interest up to $2,000 annually. Eligibility requirements for the Mortgage Revenue Bond (MRB) programs, such as first-time homebuyer status, also apply to MCCs.

Between November 2012 and January 2016, we converted a total of $277 million of unused bonding authority:

- $135 million in 2012,
- $92 million in December 2014, and
- $50 million in January 2016.

The total amount of bonding authority converted to approximately $69 million in MCC authority (with 25 percent rate for converting bonding authority into MCC authority).

The following table shows an example of how the tax credit works.

Mortgage amount	$170,000
Mortgage interest rate	3.5%
Annual mortgage interest payment	$5,952
Credit rate	25%
Annual tax credit	$1,488

Program Performance and Trends

MCCs support additional lending by the Agency and advance our business model. Ninety-seven percent of MCC borrowers have used our first mortgages to purchase their home.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing allocated MCCs for:

- 318 borrowers
- Median household income of borrowers was $59,777 or 77.5 percent of the statewide median income
- 22 percent were households of color or Hispanic ethnicity

Proposal for 2018

The MCC program is ending with a hard stop on December 31, 2017, when the current authority will expire. For the first three months of the 2018 AHP, $1 million of MCC authority is available, which we estimate will assist about 22 first time homebuyers. The Program will no longer be available when the existing authority is exhausted or expires.

Program Funding by Source

Source	Amount
Agency Bond Proceeds and Other Mortgage Capital	$1,000,000
2018 Total	$1,000,000
2017 Original Total	$5,700,000

Legal Authority: Minn. Stat. §462A.05; IRC §143, Section 25

DEFERRED PAYMENT LOANS

We offer two downpayment and closing-cost loans—Deferred Payment Loans and Monthly Payment Loans—that support homeowners receiving Start Up, Step Up, or MCC first mortgage loans[2]. Historically, the percentage of our borrowers receiving one of the two types of downpayment and closing-cost loans has been significant, ranging from 60 percent to 90 percent of all borrowers.

The Deferred Payment Loan (DPL) provides an interest-free, deferred loan for downpayment and closing costs to income-eligible first-time homebuyers purchasing a home under the Start Up program. Borrowers that receive DPL lack the necessary funds for standard mortgage downpayment and closing costs. The maximum loan amount is $10,000. The program serves lower income households than the amortizing Monthly Payment Loan (MPL) and is funded through a combination of state appropriations and Pool 3 funds.

To ensure that funds support successful homeownership, DPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or $1,000 and have a credit score of at least 640. DPL also requires at least one borrower per household to complete homebuyer education.

Current income limits are adjusted by household size. Limits for households of one to two members are:

Property Location	Maximum
Minneapolis/St. Paul (11-county area)	$69,000
Dodge and Olmsted Counties	$69,000
Balance of State	$62,000

Current purchase price limits are:

Property Location	Maximum
Minneapolis/St. Paul (11-county area)	$306,000
Balance of State	$253,800

[2]We anticipate a limited amount of funds may be available through the MCC Program until funding is exhausted or December 31, 2017, whichever occurs first. See the MCC Program write-up.

Program Performance and Trends

The availability of DPL is a driver of overall home mortgage production, particularly among lower-income and more targeted borrowers. In 2016, we increased the maximum DPL loan amounts slightly to reflect higher downpayment and closing costs resulting from higher home prices and sellers who are no longer willing to pay a sale's transaction costs. The changes went into effective on June 29, 2016.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing financed:

- 2,023 loans
- $11,359,907 in total loan amount
- $5,920 average loan
- Median household income of borrowers was $44,000 or 57 percent of the statewide median income
- 34 percent were households of color or Hispanic ethnicity

Proposal for 2018

The 2018 budget includes $18.5 million for DPL. If home mortgage demand remains very strong, additional resources may be needed to support DPL, or we will have to make program changes.

Based on resources available for new activity in 2018, we expect to support 2,298 households under this program.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2019	$885,000
Repayments, Receipts, and Prior Commitment Fallout	$3,500,000
Housing Affordability Fund (Pool 3)	$14,115,000
2018 Total	$18,500,000
2017 Original Total	$15,500,000

Legal Authority: Minn. Stat. §462A.21, Subd. 8; Minn. Rules, Parts 4900.1300-1359

MONTHLY PAYMENT LOANS

Monthly Payment Loans (MPLs) are interest-bearing, amortizing loans that provide downpayment and closing-cost funds. MPLs support our home mortgage loan programs, including Start Up, Step Up, and the first mortgage loans originated under the Mortgage Credit Certificate program. Borrowers who qualify for MPLs receive up to $12,000. MPLs have a 10-year term with an interest rate equal to that of the first mortgage.

To ensure that funds support successful homeownership, MPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or $1,000 and have a credit score of at least 640. MPL also requires at least one borrower in each household receiving a Start Up loan to complete homebuyer education.

Current household income limits are:

Property Location	Maximum Household Income	
	1-2 person	3 or more
Minneapolis/St. Paul (11-county area)	$90,400	$103,900
Dodge and Olmsted Counties	$88,600	$101,800
Balance of State	$80,400	$92,400

Current purchase price limits are:

Property Location	Maximum
Minneapolis/St. Paul (11-county area)	$306,000
Balance of State	$253,800

Program Performance and Trends

Demand for this program has remained strong since its introduction in late 2012.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 1,658 loans
- $12,105,855 in total loan amount
- $7,301 average loan
- Median household income of borrowers was $66,142 or 89 percent of the statewide median income
- 29 percent were households of color or Hispanic ethnicity

Proposal for 2018

For 2018, we anticipate over one-fourth of general home mortgage production will involve MPL, which would require $11 million for MPL. MPL production is subject to overall home mortgage production trends, the interest rate environment, the overall percentage of our borrowers who need a downpayment and closing-cost loan, and program design changes. Given that MPL is the only downpayment and closing-cost loan available with all home mortgage options, the demand for MPL depends upon the demand for Start Up, Step Up, and MCC first mortgage loans. If home mortgage demand remains very strong, additional resources may be needed to support MPL, or we will have to make program changes.

Based on resources available for new activity in 2018, we expect to fund loans for 1,209 households under this program.

Program Funding by Source

Source	Amount
Housing Investment Fund (Pool 2)	$11,000,000
2018 Total	$11,000,000
2017 Original Total	$11,000,000

Legal Authority: Minn. Stat. §462A.05

HABITAT FOR HUMANITY INITIATIVE

For more than a decade, the Habitat for Humanity Initiative has supported a statewide secondary market loan pool for Habitat for Humanity loans.

Program Performance and Trends

For the last Program Assessment period (October 1, 2015 – September 30, 2016) under the former program model, we funded:

- 27 loans
- $2,000,016 in total funding
- $72,039 average Minnesota Housing funding per household
- Median household income was $37,896 or 49 percent of the statewide median income
- 96 percent were households of color or Hispanic ethnicity

Proposal for 2018

We are continuing our revised program investment strategy that started last year. The Agency continues working with Twin Cities Habitat for Humanity by deploying up to $10 million over a four year period to assist in the development and implementation of a new lending model in the Twin Cities metropolitan area. In 2018, we are making $2.5 million available, which will support about 29 homebuyers

Existing investments made through 2016 will continue to revolve and enable Habitat for Humanity Minnesota to provide statewide coverage.

Program Funding by Source

Source	Amount
Housing Investment Fund (Pool 2)	$1,500,000
Housing Affordability Fund (Pool 3)	$1,000,000
2018 Total	$2,500,000
2017 Original Total	$2,500,000

Legal Authority: Minn. Stat. §462A.21, Subd. 5; Minn. Stat. §462.33; Minn. Rules, Parts 4900.3600-3652; and Board adopted Investment Policy, which in relevant part is consistent with Minn. Stat. §11a.24

HOMEBUYER/OWNER EDUCATION AND COUNSELING

HOMEOWNERSHIP EDUCATION, COUNSELING & TRAINING (HECAT)

The Homeownership Education, Counseling and Training (HECAT) program supports comprehensive homebuyer education and counseling, including: in-person homebuyer education, one-on-one homebuyer services (financial wellness or homebuyer counseling), home equity conversion counseling, and foreclosure prevention counseling. We and our funding partners (the Minnesota Homeownership Center, the Family Housing Fund, and the Greater Minnesota Housing Fund) accept funding proposals annually from administrators through a competitive Request for Proposals process.

Program Performance and Trends

Of the households assisted in the 2016 program year, 47 percent participated in homebuyer education classroom courses, 24 percent received one-on-one pre-purchase counseling services, 20 percent received foreclosure counseling and 9 percent received home equity conversion mortgage counseling. An additional 5,629 households participated in Framework, an online homebuyer education option. Thirty-one percent of these clients were in Greater Minnesota and 69 percent in the Twin Cities Metropolitan Area.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 8,353 households (including federal funding received through the National Foreclosure Mitigation Counseling Program). An additional 5,629 households participated online through Framework
- $1,694,271 in total funding
- $203 average Minnesota Housing assistance per household
- Median household income of participants was $35,940 or 47 percent of the statewide median income
- 44 percent were households of color or Hispanic ethnicity

A review of mortgage delinquency and foreclosure in Minnesota shows that some troubled loans remain in the system; however, rates have declined from the highs of 2008-2010, and the need for foreclosure counseling continues to diminish.

Proposal for 2018

We have received an $857,000 state appropriation. Historically, the Greater Minnesota Housing Fund and the Homeownership Center have also annually contributed $250,000 to the program, and the Family Housing Fund has contributed $150,000.

Based on resources available for new activity in 2018, we expect to fund assistance for 15,850 households under HECAT (including online Framework training).

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2019	$857,000
Repayments, Receipts, and Prior Commitment Fallout	$45,000
Contributions from Other Organizations	$650,000
2018 Total	$1,552,000
2017 Original Total	$1,517,000

Legal Authority: Minn. Stat. §462A.209

ENHANCED HOMEOWNERSHIP CAPACITY INITIATIVE

Households of color or Hispanic ethnicity are an increasing share of the state's population, yet Minnesota's homeownership disparity (the homeownership rate differential between white/non-Hispanic households and households of color or Hispanic ethnicity) is the highest in the nation. These households often struggle to access the mortgage market, and their homeownership rate declined between 2008 and 2012, and leveled off since then.

The Enhanced Homeownership Capacity Initiative, a pilot program, provides intensive financial education, comprehensive homebuyer/owner training, and case management services to prepare families for sustainable homeownership. It serves a range of households but has targeted efforts to reach households of color or Hispanic ethnicity and low-to-moderate income households to increase their probability of successful homeownership.

In the most recent round of funding, fifteen organizations will provide services – nine in the Twin Cities metro, four in Greater Minnesota, and two in both areas.

Program Performance and Trends

This initiative supports new and expanded homeowner training efforts through existing organizations, which leverage funds from a number of sources.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 626 households served
- $650,000 total grant amount
- $1,038 average Minnesota Housing funding per household
- Median household income of borrowers was $34,992 or 45 percent of the statewide median income
- 88 percent were households of color or Hispanic ethnicity

Proposal for 2018

For 2018, we will allocate $1,250,000 for the pilot, including a $500,000 direct appropriation to one provider by the Legislature and $750,000 of Pool 3 funds that we will distribute through a competitive RFP.

Based on resources available for new activity in 2018, we anticipate serving approximately 926 households under this pilot program.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2018	$500,000
Housing Affordability Fund (Pool 3)	$750,000
2018 Total	$1,250,000
2017 Original Total	$1,250,000

Legal Authority: Minn. Stat. §462A.209

HOME IMPROVEMENT LENDING

HOME IMPROVEMENT LOAN PROGRAM

The Home Improvement Loan Program, including the Fix Up Fund and Community Fix Up Fund, provides fully-amortizing home improvement loans to low- and moderate-income homeowners to improve the livability and energy efficiency of their homes. It is a key tool for addressing the state's stock of aging housing.

The program serves a broad range of incomes and promotes economic diversity in lending. With higher loan-to-value limits than traditional loan products and an unsecured loan option, borrowers are able to improve and preserve their homes when other financing options may be not available to them. This is an important product when home values in some markets are still recovering from the housing crisis, and traditional lender loan products are capped at an 80 percent loan-to-value ratio.

Current income limit: $104,000 for secured and unsecured loans (no limit for unsecured energy incentive and secured energy/accessibility loans).

Maximum loan amount: $50,000 for secured loans; $15,000 for unsecured loans and secured energy/accessibility loans.

Program Performance and Trends

For the Program Assessment period of October 1, 2015—September 30, 2016, Minnesota Housing financed:

- 746 loans
- $13,536,240 total loan amount
- $18,145 average loan
- Median household income of borrowers was $65,666 or 85 percent of the statewide median income
- 9 percent were households of color or Hispanic ethnicity

Coming out of the recession, lending in this program initially increased with the stronger economy; however, over the last couple of years, production has been limited. Lenders have told us that renewed home equity lines of credit and cash-out first mortgage refinances are pulling market share from fixed-term products.

Proposal for 2018

With recent trends in home improvement lending, we are forecasting $15.3 million for this program and we expect to finance loans for 827 households.

Staff has started a program evaluation to identify program changes that will better serve eligible homeowner needs and stabilize the lender network. Staff will support our Olmstead initiative with continued outreach to disability service organizations to increase awareness of loan resources and increase program usage by households with accessibility needs. We will also continue to promote Community Fix Up initiatives with an interest-rate write down that reaches lower income households than those served under regular program options.

Program Funding by Source

Source	Amount
Housing Investment Fund (Pool 2)	$15,300,000
2018 Total	$15,300,000
2017 Original Total	$14,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 14; Minn. Rules, Parts 4900.0610-0700

REHABILITATION LOAN PROGRAM (RLP)

The Rehabilitation Loan Program (RLP) provides deferred loan financing to low-income homeowners needing home rehabilitation to improve its safety, livability, or energy efficiency. The housing is rehabilitated to the greatest extent practicable to meet the rehabilitation standard adopted by the Agency in 2010. Homeowners who need emergency assistance or have an essential accessibility need are referred to the Emergency & Accessibility Loan (ELP) component of the program.

Local entities, such as community action agencies, administer RLP. The maximum loan term is 15 years for properties taxed as real property and 10 years for manufactured homes taxed as personal property and located in a manufactured home park. All loans are forgiven after the loan term if the borrower does not sell, transfer title, or cease to occupy the property during the loan term. Other borrower assets cannot exceed $25,000.

Current income limits are adjusted by household size, from $19,000 for a single person household to $27,100 for a four-person household.

Maximum loan amount: $15,000 for an emergency or accessibility loan and $27,000 for a rehabilitation loan.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 278 loans
- $6,274,706 total loan amount
- $22,571 average loan
- Median household income of borrowers was $14,336 or 19 percent of statewide median income
- 11 percent were households of color or Hispanic ethnicity

In the past year, staff has worked to: 1) improve program delivery and the capacity of local administrators, 2) analyze the program to increase efficiencies and work with lenders to improve program processes, and 3) improve training resources by developing accessible and instructional training tutorials.

Proposal for 2018

In 2018, we will continue to work with administrators to identify program changes that will both improve client services and make program administration easier. We will continue working to ensure statewide program coverage in urban, suburban and rural markets, as well as coverage to core demographics who often receive assistance, including seniors and households with a disabled member.

Based on resources available for the program in 2018, we expect to fund rehabilitation loans for 380 households.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2019	$2,772,000
Repayments, Receipts, and Prior Commitment Fallout	$1,000,000
Housing Affordability Fund (Pool 3)	$5,722,000
2018 Total	$9,494,000
2017 Original Total	$8,600,000

Legal Authority: Minn. Stat. §462A.05, Subd. 14a; Minn. Rules, Parts 4900.0610-0700

RENTAL PRODUCTION - NEW CONSTRUCTION AND REHABILITATION

MULTIFAMILY FIRST MORTGAGES

We make available Multifamily First Mortgages through our Low and Moderate Income Rental (LMIR) program and MAP (Multifamily Accelerated Processing) lending.

Low and Moderate Income Rental (LMIR)

We have the ability to finance and insure amortizing first mortgages. Traditionally, we have made direct loans through our Low and Moderate Income Rental Program (LMIR) using either

Pool 2 resources or proceeds from the issuance of tax-exempt bonds. Direct loans are now made under LMIR in combination with HUD's Risk Sharing Program.

The LMIR Program makes interest-bearing, amortizing first mortgages available for the refinance, acquisition, rehabilitation, or new construction/conversion of rental developments that house low- and moderate-income Minnesotans. We also finance construction (bridge) loans and streamlined refinance loans under this program. Financing is available to housing sponsors both through the Request for Proposals (RFP) process and on a year-round pipeline basis. To enhance LMIR loans, we may also offer a companion, low- or no-interest deferred loan under the Flexible Financing for Capital Cost (FFCC) program, resulting in a lower overall interest rate on a blended basis.

Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and the balance of units may have rents at the Minnesota Housing determined "market rate".

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income; or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible with loan amounts less than $2 million on tax-exempt bond loans and $350,000 on all others.

For the past several years, the bond market has not produced attractive interest rates for long-term bonds; as a result, we have issued short-term tax-exempt bonds to finance LMIR construction (bridge) loans. Bridge loans may be paid off by permanent LMIR loans funded from Pool 2 resources, a structure that allows developments to qualify for 4 percent housing tax credits and realize the benefit of very low short-term interest rates while not being subject to interest rate risk on the permanent mortgages. This structure is subject to change as directed by our finance staff (as the bond market changes).

MAP Lending

The HUD Multifamily Accelerated Processing (MAP) program provides mortgage insurance through HUD's Federal Housing Administration to facilitate new construction, rehabilitation, acquisition, and refinance of multifamily rental housing. MAP transactions are fully-insured, fully-amortizing loan products. Through a partnership with Dougherty Mortgage, we complete the loan underwriting and then assign HUD's commitment to a third party for rate lock, closing, funding, and servicing. These loans may be paired with our other loan programs.

Eligibility requirements: The development must meet the underwriting standards as prescribed by HUD, including loan-to-value requirements and debt-service-coverage ratio. The development team must also meet HUD requirements regarding experience and financial strength.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible in amounts of less than $1 million.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, under LMIR, Minnesota Housing financed:

- 6 loans for developments with 554 units
- $24,684,250 total loan amount
- $44,556 average assistance per unit
- Median household income of tenants was $23,667 or 31 percent of the statewide median income
- 57 percent of households were of color or Hispanic ethnicity

One MAP loan for a development with 75 units closed October 1, 2015 – September 30, 2016. In the current interest rate environment, MAP loan volume is expected to increase, both through the RFP and on a pipeline basis.

- 1 loan for a development with 75 units
- $2,427,000 total loan amount
- $32,360 average loan

Proposal for 2018

To broaden the benefit and flexibility of our first mortgage programs, over the past year we made modifications to the program to make it more competitive in the market and began exploring ways to streamline our application submission and review process. Additionally, we developed a year-round funding approach to enhance the marketing and benefit of our mortgage products. We expect to pair deferred funding sources (including FFCC, PARIF, Assets Management loans, and possibly HOME) with amortizing mortgages to support this year-round approach.

We review funding applications to determine if they would be better served as LMIR or MAP loans. Staff anticipates 2018 LMIR loans will be processed under the Federal Financing Bank Risk Sharing Program. For 2018, we will continue to explore and implement additional mortgage products.

We are budgeting $70 million for LMIR and MAP lending. We anticipate that roughly 75 percent of the permanent financing will be awarded through the RFP process and 25 percent will be awarded through year-round funding.

Based on resources available in 2018, we expect to assist up to 874 units under permanent LMIR financing (excluding bridge loans) and MAP lending.

Program Funding by Source

Source	Amount
Agency Bond Proceeds and Other Mortgage Capital	$45,000,000
Housing Investment Fund (Pool 2)	$25,000,000
2018 Total	$70,000,000
2017 Original Total	$80,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 3

FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC)

We provide Flexible Financing for Capital Costs (FFCC) deferred loans at low or no interest. FFCC is available only in conjunction with Agency-originated first mortgage loans for the refinance, acquisition, rehabilitation, or new construction/conversion of rental developments that house low- and moderate-income Minnesotans.

We allocate FFCC funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be unnecessarily delayed if required to wait for the next RFP.

Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and the balance of units may have rents at the Minnesota Housing determined "market rate".

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income; or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

Maximum loan amount: no set limit, subject to funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing financed:

- One FFCC loan for a development with 173 units
- $1,560,000 total loan amount
- $9,017 average FFCC assistance per unit

Proposal for 2018

Because the need for FFCC is largely dependent on which develops ask for and receive a first mortgage from us and need gap financing, demand for FFCC is very uncertain. Thus, we are not allocating funds to FFCC at this time. As RFP selections are made, we will transfer funds from the Multifamily Flexible Capital Account to FFCC. (The next program description outlines this account.)

Of the FFCC funds that will eventually be made available, we anticipate that approximately 75 percent of the funds will be awarded through the 2017 RFP and up to 25 percent will be awarded through year round pipeline.

Until we determine the amount of funds needed for FFCC, we cannot estimate the number of units that would be assisted.

Program Funding by Source

Source	Amount
Housing Affordability Fund (Pool 3)	TBD
2018 Total	TBD
2017 Original Total	TBD

Legal Authority: Minn. Stat. §462A.05, Subd.3, and - Minn. Stat. §462A.21, Subd.8a.

MULTIFAMILY FLEXIBLE CAPITAL ACCOUNT

Our multifamily underwriting team has the difficult challenge of funding as many high-quality rental developments each year as possible with available funds and varying program restrictions. Matching the right funds to the right development to maximize the number of affordable housing opportunities is a complex process. The Multifamily Flexible Capital Account, which uses resources from our Housing Affordability Fund (Pool 3), allows us to fill the last funding gaps in projects to maximize production. We will use this account to fund FFCC after we determine the amount that is needed, asset management loans, and other gaps.

Program Performance and Trends

This was a new account for 2017, from which resources were transferred to regular programs as needed.

Program Funding by Source

Source	Amount
Housing Affordability Fund (Pool 3)	$8,500,000
2018 Total	$8,500,000
2017 Original Total	$4,500,000

LOW-INCOME HOUSING TAX CREDITS (LIHTC)

Low-Income Housing Tax Credits (LIHTCs) provide federal income tax credits to owners and investors in the construction or acquisition/substantial rehabilitation of eligible rental housing. The housing must meet income and rent restrictions for a minimum of 30 years. The U. S. Department of Treasury (IRS) allocates tax credits based upon state population and a per capita amount that increases each year with the cost of living. Syndication proceeds are the amounts of private equity invested in developments as a result of federal housing tax credits awarded and then sold to investors. The award of LIHTCs is a highly competitive process, with requests far exceeding available credits.

The Minnesota Legislature designated us as the primary allocating agency of LIHTC in Minnesota and qualified local cities and counties as suballocators.

We award tax credits in two rounds of a competitive allocation process held each year. Round 1 is held concurrent with our Request for Proposals, and a smaller Round 2 is traditionally held early in the next calendar year. We establish a waiting list of unfunded or partially funded applications at the conclusion of Round 2.

Section 42 of the Internal Revenue Code requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. Our Qualified Allocation Plan (QAP) combines state and federally legislated priorities with other priorities established by us based on input from the public, partners, and stakeholders. The QAP sets forth selection criteria that are appropriate to local conditions and support our mission and strategic priorities.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing financed or allocated:

- 515 LIHTC units
- $62,020,774 in syndication proceeds
- $120,429 average syndication amount per unit
- Median household income of tenants in LIHTC units financed by Minnesota Housing was $21,619 or 28 percent of the statewide median income
- 45 percent of households were of color or Hispanic ethnicity

Proposal for 2018

Based on the available LIHTC credit ceiling, we expect to allocate tax credits to support 554 units in 2018.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	$9,598,835
2018 Total	$9,598,835
2017 Original Total	$9,546,045

Legal Authority: Minn. Stat. §462A.221-225; IRC §42

NATIONAL HOUSING TRUST FUND

The National Housing Trust Fund (NHTF) is an affordable housing production program that complements existing Federal, State, and local efforts to increase and preserve the supply of safe, affordable housing for extremely low-income households, including families experiencing homelessness. The Fund is capitalized through contributions from the government sponsored enterprises Fannie Mae and Freddie Mac and administered by U.S. Department of Housing and Urban Development.

Current Income Restrictions: NHTF-assisted units must be occupied by households with incomes at or below 30% of the area median income (AMI).

Current Rent Restrictions: Rents of an extremely low-income tenant shall not exceed affordability at the greater of 30 percent of the federal poverty line or 30 percent of area median income. HUD will publish the HTF rent limits on an annual basis.

Program Performance and Trends

This was a new program in 2017. Funds were awarded for new construction of 30 permanent Supportive Housing Units in a development with an estimated December 2017 closing date.

Proposal for 2018

Our program will provide financing for one to two developments that are:

- New construction,
- Acquisition with rehabilitation,
- Rehabilitation without acquisition, or
- Operating subsidies for one of the above developments that produces new units meeting the permanent supportive housing strategic priority (up to 30% of the grant)

Based on the available resources, funds are expected to support 39 units in 2018.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	$3,118,428
2018 Total	$3,118,428
2017 Original Total	$3,000,000

Legal Authority: Housing and Economic Recovery Act of 2008, Section 1131; 12 U.S.C 4501 et seq; 24 C.F.R Part 93.

PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF)

PARIF provides deferred loans to fund the preservation of: 1) permanent affordable rental housing with project-based federal subsidies that are in jeopardy of being lost, and 2) existing at-risk supportive housing developments. Eligible activities under PARIF include rehabilitation, acquisition and rehabilitation, debt restructuring, and equity take-out.

We allocate PARIF funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: PARIF is subject to the federal guidelines for the units being preserved.

Maximum assistance amount: None

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- Three developments with 199 units
- $5,201,339 total loan amount
- $23,137 average PARIF assistance per unit
- Median household income of tenants was $13,704 or 18 percent of the statewide median income
- 48 percent were households of color or Hispanic ethnicity

This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based federally assisted housing.

Proposal for 2018

We anticipate that approximately 80 percent of the funds will be awarded through the 2017 RFP and up to 20 percent will be awarded through the year-round pipeline. Pipeline requests will be considered if a project faces one of the following risks which preclude it from applying through the RFP: 1) the proposal has existing funding commitments that cannot be extended and will be otherwise lost; 2) the proposal involves immediate emergency repairs threatening the health and safety of existing tenants; 3) the current owner delivered an opt-out notice and the federal subsidy would be lost without an incentive or transfer; or 4) the proposal documents a unique housing opportunity that would be lost and that advances our strategic priorities as outlined in the RFP Guide.

Based on resources available for new activity in 2018, we expect to fund 387 units.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2018	$4,218,000
Repayments, Receipts, and Prior Commitment Fallout	$2,000,000
Carry Forward of Unobligated Balances from Previous Plans	$10,405,916
2018 Total	$16,623,916
2017 Original Total	$13,900,580

Legal Authority: Minn. Stat. §462A.21, Subd. 8b and 14a; Minn. Stat. §462A.05, Subd. 3b; Laws of Minnesota 2009, Chap. 17, Art. 1, Sec. 6; Minn. Rules, Parts 4900.3500-3550, 2700-2707, 4900.0610-0700

HOME

HOME provides deferred loans for new construction, rehabilitation or acquisition/rehabilitation of permanent affordable rental housing, including housing with state or federal project-based rental subsidies.

We allocate HOME funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: The U.S. Department of Housing and Urban Development (HUD) annually sets limits for the HOME program.

Rent limits: HUD annually sets limits for the HOME program.

Maximum assistance amount: HUD annually sets the maximum per-unit subsidy limits.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- Two developments with 694 units
- $5,660,603 total loan amount

- $8,156 average HOME assistance per unit
- Median household income of tenants was $18,000 or 23 percent of the statewide median income
- 36 percent were households of color or Hispanic ethnicity

This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based assisted housing.

Proposal for 2018

In 2018, HOME funds will be used to support either new construction or rehabilitation needs. Less funding is available in 2018 because we are not budgeting new 2018 resources until the funding is more certain. Until then, recycled HOME program income and unused funds from prior years will be used to support loan modifications for existing commitments.

Program Funding by Source

Source	Amount
Federal Funds	
Repayments/Program Income	$1,200,000
Carry Forward of Unobligated Balances from Previous Plans	$500,000
2018 Total	$1,700,000
2017 Original Total	$11,518,166

Legal Authority: Minn. Stat. §462A.21, Subd. 8b and 14a; Minn. Stat. §462A.05, Subd. 3b; Laws of Minnesota 2009, Chap. 17, Art. 1, Sec. 6; Minn. Rules, Parts 4900.3500-3550, 2700-2707, 4900.0610-0700 and Title 11 of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. §12701 et seq; 24 CFR Part 92

PRESERVATION – PUBLICLY OWNED HOUSING PROGRAM (POHP)

Under the Publicly Owned Housing Program (POHP), we provide deferred, forgivable loans at no interest to eligible public housing authorities or housing and redevelopment authorities to preserve/rehabilitate properties that they own and operate under HUD's Public Housing program. Past legislation also has authorized the acquisition, construction, or rehabilitation of publicly-owned permanent supportive or transitional rental housing. Funds are from the proceeds of state General Obligation Bonds and can be used only for eligible capital costs of a non-recurring nature that add value or life to the buildings.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 21 loans for 1,448 units
- $10,920,077 total loan amount
- $7,541 average assistance per unit
- Median household income of tenants was $11,267 or 15 percent of the statewide median
- 25 percent were households of color or Hispanic ethnicity

Proposal for 2018

The tentative RFP schedule for PHOP has applications due in November or December of 2017, and funding recommendations presented at the March 2018 Board meeting. Based on resources available for new activity in 2018, we expect to rehabilitate 1,504 units.

Program Funding by Source

Source	Amount
State GO and Infrastructure Bond Proceeds	
New Funding	$10,000,000
Carry Forward of Unobligated Balances from Previous Plans	$2,030,024
2018 Total	$12,030,024
2017 Original Total	$1,687,858

Legal Authority: Minn. Stat. §462A.202; Minn. Rules, Parts 4900.3100-3130

RENTAL REHABILITATION DEFERRED LOAN PILOT PROGRAM (RRDL)

RRDL provides deferred loans at no interest to individuals, developers, nonprofits, units of government, and tribal housing corporations for the moderate rehabilitation of existing affordable rental housing throughout Greater Minnesota. The program is designed to serve owners of smaller federally assisted properties or naturally affordable properties that do not apply or would not be competitive in our regular Consolidated Request for Proposals process.

Program funds are available through a network of local administrators. For developments located in areas of the state that are not represented by a local program administrator, owners may apply directly to us for RRDL funds as a project-specific applicant. Loan terms range from 10 to 30 years depending on the loan amount. Building that contain 1-4 units may apply for loans up to $ 100,000, these loans are 100% Forgivable. Properties containing 5 or more units, may apply for loans where 10 percent of the loan amount is forgiven after the loan term has been met.

Current tenant income limit: 80 percent of the greater of the statewide or area median income, not adjusted for family size.

Maximum loan amount: $35,000 per unit for 1-2 units or $25,000 per unit up to a maximum loan of $300,000.

Program Performance and Trends

In 2015, we completed an evaluation of the first four years of this pilot. RRDL has been most successful in rehabilitating 20 to 36 unit properties; and 1 to 4 unit properties remain underrepresented in the current portfolio of RRDL assisted units. A survey of administrators and potential borrowers indicated that owners of small properties were interested in the program, but frequently unable to complete the required application and due diligence materials. We implemented the evaluation recommendation that loans to properties with one to four units be fully forgivable to encourage rehabilitation of these properties. Even with these changes, the program is not effectively reaching these small properties. Thus, in 2018, we will carry another evaluation and further refine the program. We will also continue to market the program to owners and recruit additional administrators with the skills necessary to assist owners in preparing funding applications.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 25 loans for developments with 509 units

- $5,585,863 total loan amount
- $10,974 average RRDL assistance per unit
- Median household income of tenants was $14,255 or 19 percent of the statewide median income
- 24 percent were households of color or Hispanic ethnicity

Proposal for 2018

We run the Request for Proposal (RFP) process for RRDL every other year. We ran it in 2016 with $8.1 million, which left $954,606 for projects in 2017. In 2018, we will run the next RFP with the new biennial appropriations and unused funds from prior years.

Based on resources available and current production trends, we expect to finance 835 units.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2019	$3,743,000
New Appropriations 2018	$3,743,000
Carry Forward of Unobligated Balances from Previous Plans	$2,115,587
2018 Total	$9,601,587
2017 Original Total	$954,606

Legal Authority: Minn. Stat. §462A.05 sub.14 and §462A.33; Minn. Rules, Parts 4900.3600-3652

GREATER MINNESOTA WORKFORCE HOUSING DEVELOPMENT PROGRAM

The Greater Minnesota Workforce Housing Development Program will fund rental housing development in Greater Minnesota communities. The program gives funding priority to communities with 30,000 or fewer residents and developments with the greatest proportion of housing units without income restricts.

The program was formerly run by the Department of Employment and Economic Development and was moved to Minnesota Housing by the Legislature in the 2018 Legislative Session.

Program Performance and Trends

This will be Minnesota Housing's first year managing this program so we do not have past performance and trends.

Proposal for 2018

In the first year, we plan to run the program in a similar manner to the DEED program. Funding will be awarded through a Request for Proposal process that is separate from the agency's Consolidated RFP. Funds may be awarded as grants or deferred loans.

Based on resources available for 2018, we expect our funds to support the development of approximately 80 units of housing in Greater Minnesota.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2018	$2,000,000
2018 Total	$2,000,000
2017 Original Total	N/A

Legal Authority: Minn. Stat. §462A.39

RENTAL ASSISTANCE CONTRACT ADMINISTRATION

SECTION 8 – PERFORMANCE BASED CONTRACT ADMINISTRATION (PBCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the fair market rent of assisted units.

Under an agreement with HUD that has been extended several times, we administer existing Section 8 contracts for affordable rental units that were not part of our Section 8 Traditional Contract Administration (TCA) first mortgage portfolio. Our primary responsibilities under PBCA are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends

Our current agreement with HUD extends through December 31, 2017; we expect a new invitation to bid or an additional contract extension by year's end. We currently manage 409 PBCA contracts under this agreement. Since 2007, about 100 TCA contracts have transitioned to PBCA. PBCA revenue earned through administration of the contracts pays 100 percent of the cost of administering the program.

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing reported:

- 21,443 households assisted
- $134,716,487 in Housing Assistance Payments
- $6,283 average assistance per household
- Median household income of tenants was $12,083 or 17 percent of the statewide median income
- 38 percent were households of color or Hispanic ethnicity

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units are located in the Twin Cities Metropolitan Area than TCA units.

Proposal for 2018

Funding levels will continue to change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because PBCA outlays are based in part on the number of assisted units in the portfolio, outlays will increase as the portfolio increases.

We expect to assist an estimated 21,390 units in 2018 under PBCA.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	$138,500,000
2018 Total	$138,500,000
2017 Original Total	$135,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

SECTION 8 – TRADITIONAL CONTRACT ADMINISTRATION (TCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the fair market rent of assisted units.

We provided permanent mortgage financing for more than 235 Section 8 Traditional Contract Administration (TCA) properties developed from 1975 to the mid-1980s. We currently manage 135 of these TCA contracts. Our primary responsibilities under Section 8 TCA are to perform asset management functions, management and occupancy reviews, process contract renewals and annual rent adjustments, process monthly payment vouchers, and respond to tenant concerns. These activities assist us in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, we reported:

- 8,948 households assisted
- $49,956,499 in Housing Assistance Payments
- $5,583 average assistance per household
- Median household income of tenants was $12,636 or 16 percent of the statewide median income
- 28 percent were households of color or Hispanic ethnicity

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units are located in the Twin Cities Metropolitan Area than TCA units.

Proposal for 2018

Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. We expect to assist an estimated 8,910 units in 2018 under TCA.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	$51,055,000
2018 Total	$51,055,000
2017 Original Total	$52,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

HOUSING STABILITY FOR VULNERABLE POPULATIONS

HOUSING TRUST FUND (HTF)

Historically, funding for the HTF has come from state appropriations and been used to fund capital, rental assistance, and operating subsidy expenses. In recent years, we have used HTF appropriations primarily for rental assistance and some operating subsidies. HTF serves low-income families and individuals (including unaccompanied youth) who are near-homeless, homeless, or long-term homeless.

Current tenant income limit: 60 percent of the Minneapolis/Saint Paul Metropolitan Statistical Area median income (AMI), with priority for proposals at 30 percent of AMI and proposals to serve the long-term homeless.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

- 1,772 households
- $9,544,658 in total disbursements
- $7,248 average assistance per household
- Median household income of tenants was $9,186 or 12 percent of the statewide median income
- 65 percent were households of color or Hispanic ethnicity

Proposal for 2018

Minnesota Housing provides HTF rental assistance and operating subsidies under two-year contracts with local assistance administrators. The most recent contracts were funded in the 2017 AHP and cover activity during the 2018 AHP; new funding is not needed for core contracts.

Besides the regular HTF contracts and pilot programs, 2018 will include an additional $1.75 million for the Homework Starts with Home pilot, which will allow us to continue providing rent assistance and working with homeless and highly mobile families with school-aged children. The program has some unused funds from prior AHPs that could be used for pilot and/or capital projects.

Based on resources available in 2018, we expect to provide rental assistance for an estimated 1,910 households under this program through the core contracts and the pilots and assist 1,501 units through operating subsidies.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2018	$1,750,000
Unused Funds from Previous Contracts	$2,000,000
Carry Forward of Unobligated Balances from Previous Plans	$3,139,986
Funding for New Contracts	$6,889,986
Adjustment to Spread Contracts Over Two Years	$10,781,248
2018 Net Total	$17,671,234
2017 Original Net Total	$17,963,789

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

BRIDGES

Bridges is a state-funded rental assistance program for people with a serious mental illness. The goal of Bridges is to assist individuals to live in integrated settings in their communities until a permanent housing subsidy is available. Bridges operates in selected counties throughout the state. Local housing organizations administer these grants, which provide temporary rental assistance and security deposits on behalf of participants. The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of this program.

Tenants are responsible for a portion of the rent, which is generally equal to 30 percent of their income. Participants are required to be on a waiting list or eligible for a permanent rent subsidy, such as a Section 8 Housing Choice Voucher.

Bridges is a major component of our contribution to achieving Minnesota's Olmstead Plan goals as well as a significant part of the state's Plan to Prevent and End Homelessness. In 2015, the program implemented priorities to target resources to these goals. Bridges' priorities for serving households are:
- Persons residing in an institution or other segregated setting who will be homeless upon discharge.
- Persons experiencing homelessness for one year or more, or multiple times in the last three years.
- People experiencing or at imminent risk of homelessness.

Current tenant income limit: 50 percent of area median income.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:
- 754 households
- $3,118,158 in total disbursements
- $6,036 average assistance per household
- Median household income of tenants was $9,768 or 13 percent of the statewide median income
- 32 percent were households of color or Hispanic ethnicity

Proposal for 2018

Bridges funds rent assistance under two-year contracts with local assistance administrators. Minnesota Housing funded the most recent contracts in the 2017 AHP. These contracts cover activity during the 2018 AHP, in which no new funding is needed.

Based on the resources available in 2018, we expect to assist an estimated 900 households.

Program Funding by Source

Source	Amount
Funding for New Contracts	$0
Adjustment to Spread Contracts Over Two Years	$5,140,000
2018 Net Total	$5,140,000
2017 Original Net Total	$6,339,508

Legal Authority: Minn. Stat. §462A.2097; Minn. Rules, Parts 4900.3000-3050

SECTION 811 SUPPORTIVE HOUSING PROGRAM

Section 811 is a federal program under which the U.S. Department of Housing and Urban Development (HUD) has provided funding to states for project-based rental assistance to create integrated, cost-effective supportive housing units for people with disabilities. The goals of the program are to:

- Increase housing opportunities for people with disabilities;
- Transition people with disabilities from institutions to community-based settings;
- Reduce public costs of homelessness and institutional care;
- Create a centralized outreach and referral system; and
- Develop new service linkages.

We implement the program in partnership with the Minnesota Department of Human Services (DHS). DHS staff coordinates all outreach, screening, and referrals for 811 units and works with property owners to ensure support services are offered to tenants.

Eligible applicants for Minnesota's allocation of 811 funding include private and public owners of multifamily housing. The project-based rent assistance covers the difference between the tenant's payment and the approved gross rent.

Eligible tenants include extremely low-income households with one or more disabled members, who are either participating in the Minnesota Department of Human Services' Money Follows the Person demonstration program or are experiencing long-term homelessness.

The Section 811 program is a key tool for achieving the goals of the Olmstead Plan to provide integrated housing options for people with disabilities. It is a unique opportunity to expand supportive housing for people with disabilities and leverage Medicaid resources for services.

The state will enter into contracts with selected owners for a minimum of 20 years, with initial funding for a period of five years. Funding beyond the first five years is subject to federal appropriations. A small portion of the grant is used to pay for administrative expenses.

Program Performance and Trends

HUD initially awarded Minnesota $3 million for up to 85 units of project-based rental assistance. We have awarded all of this funding for 84 project-based rental assistance subsidies (one unit less than the original goal of 85 units). Lease up of 811 units began in early 2016 with 71 households in housing by the end of June 2017.

In 2015, we received a second round of funding for an additional 75 units, which are awarded to existing or new properties through the Multifamily Consolidated RFP process. We selected nine properties with 48 units for the 811 program in the 2015 and 2016 RFPs, and will offer the remaining 27 units in the 2017 funding rounds.

Proposal for 2018

The Section 811 funds spread over five years will support $1.2 million of annual activity. Because we are still in the ramp-up period, we expect to disburse about $660,000 in 2018 and support about 105 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$660,000
2018 Net Total	$660,000
2017 Original Total	$500,000

Legal Authority: Minn. Stat. §462A.05, Subd. 6, 11, and 12; Minn. Stat. §462A.06, Subd. 6

FAMILY HOMELESS PREVENTION AND ASSISTANCE PROGRAM (FHPAP)

Under FHPAP, we assist families with children, unaccompanied youth, and single adults who are homeless or are at imminent risk of homelessness. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters, eliminating repeat episodes of homelessness, and assisting individuals and families experiencing homelessness to secure permanent affordable housing.

FHPAP assists extremely low-income people primarily through short-term rent assistance (limited to 24 months but typically less than three months), security deposits, utilities and transportation assistance, and case management services. FHPAP grants also encourage and support innovations at the county, region, or local level for a more seamless and comprehensive homelessness response system.

Grant funds are awarded through a competitive Request for Proposals process. In the seven-county Twin Cities Metropolitan Area, only counties are eligible to apply for funding. In Greater Minnesota, eligible applicants include counties, groups of contiguous counties acting together, or community-based nonprofit organizations or tribal nations.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing reported:

- 6,495 households
- $7,500,963 assistance disbursed
- $1,155 per household average assistance amount
- Median household income was $12,000 or 16 percent of the statewide median income
- 56 percent were households of color or Hispanic ethnicity

As of the end of state fiscal year 2017, 44 percent of funds allocated to providers were used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 48 percent of funds were used for support services; and 8 percent of funds were used for program administration.

Available data, collected through Minnesota's Homeless Management Information System (HMIS), indicate that only 6 percent of assisted households returned to shelter within one year of exiting this program. HMIS also tracks the percentage of households stably housed at program exit.

Percentage of FHPAP Households Stably Housed At Exit

Biennium	% Stably Housed at Exit
2016-17	80%
2014-15	77%
2012-13	78%
2010-11	78%

Proposal for 2018

Under the 2017 AHP, we awarded funds to twenty grantees across the state of Minnesota for the biennium which began July 1, 2017 and ends June 30, 2019 and covers the 2018 AHP. The Minnesota Tribal Collaborative, which represents five of the northern tribal nations, was a new grantee.

In 2018, $250,000 is available to support the Homework Starts with Home Initiative.

Based on resources available in 2018, we expect to assist an estimated 7,115 households.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2018	$250,000
Funding for New Contracts	$250,000
Adjustment to Spread Contracts Over Two Years	$8,643,486
2018 Net Total	$8,893,486
2017 Original Net Total	$8,644,000

Legal Authority: Minn. Stat. §462A.204

HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA)

The Housing Opportunities for Persons with AIDS (HOPWA) program provides grants for housing assistance and services (including short-term rent, mortgage, and utility assistance) for people with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status, or related diseases and their families. The U.S. Department of Housing and Urban Development allocates funds to local jurisdictions. The City of Minneapolis receives and administers a direct award for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. We receive a direct award for the portion of the state not covered by the City of Minneapolis grant and contract with the Minnesota AIDS Project to administer these funds.

Current tenant income limit: 80 percent of area median income, adjusted for family size.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing assisted households in 50 counties, as follows:

- 177 households
- $127,787 of assistance disbursed
- $722 average assistance per household
- Median household income was $17,344 or 23 percent of the statewide median income
- 42 percent were households of color or Hispanic ethnicity

Proposal for 2018

Based on resources available for new activity in 2018, we expect to assist an estimated 184 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	$175,184
2018 Total	$175,184
2017 Original Total	$153,742

Legal Authority: Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12901-12921; 24 C.F.R. Part 574

RENTAL PORTFOLIO MANAGEMENT

ASSET MANAGEMENT

Under the Asset Management program, we can provide a range of loan options, including interest-bearing, non-interest bearing, amortizing, and/or deferred. The loans fund deferred maintenance, capital improvements, and operating subsidies, as well as rent subsidy grants, which protect Agency assets and ensure that developments are decent, safe, and sanitary. Funds also may be used for acquisition, to stabilize troubled developments, or to buy out partners.

Resources are available on a pipeline basis when reserves are inadequate to fund needed capital improvements. Owners receiving funding under this program must agree to extend affordability restrictions for a minimum of ten years beyond the current commitment.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing provided asset management assistance for three developments with 83 units.

Proposal for 2018

Multifamily staff will continue to focus on evaluating unmet needs within the portfolio as well as identifying new opportunities and processes for using and leveraging Asset Management funds.

In 2018, we will fund Asset Management loans from the Financing Adjustment/Financing Adjustment Factor (FA/FAF) pool. Based on resources available for new activity in 2018, we expect to assist about 165 units. If additional funds are needed, we will transfer funds from the Multifamily Flexible Capital Account.

Program Funding by Source

Source	Amount
Federal Funds	
Carry Forward of Unobligated Balances from Previous Plans	$2,482,043
2018 Total	$2,482,043
2017 Original Total	$2,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 3

MULTIPLE USE RESOURCES

ECONOMIC DEVELOPMENT AND HOUSING/CHALLENGE (EDHC) – REGULAR

Under the Economic Development and Housing/Challenge Program (EDHC), we provide grants or deferred loans for construction, acquisition, rehabilitation, interest rate reduction, interim or permanent financing, refinancing, and gap funding. Funds are used to support economic development or job creation activities within an area by meeting locally identified housing needs for either renter or owner-occupied housing.

Our Multifamily and Single Family divisions allocate these resources to competitive proposals submitted through the Request for Proposals (RFP) process. Staff evaluates proposals according to EDHC selection standards and our strategic priorities. RFP funding for single family housing is available under the Community Homeownership Impact Fund ("Impact Fund"). This fund is the umbrella program for EDHC and interim construction financing for homeownership activities.

We make EDHC loans to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations, or owners of housing (including individuals) for both multifamily (minimum of four units) and single family projects. EDHC requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources.

Current income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Maximum loan amount: None beyond funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded:

Multifamily EDHC

- 5 loans to developments with 234 units
- $6,435,140 total loan amount
- $27,501 average EDHC assistance per unit
- Median household income of $19,760 or 26 percent of the statewide median income
- 69 percent were households of color or Hispanic ethnicity

Single Family EDHC – Impact Fund

- 294 loans
- $6,111,974 total loan amount
- $20,796 average loan
- Median household income was $38,950 or 51 percent of statewide median income
- 51 percent were households of color or Hispanic ethnicity

Proposal for 2018

In the October 2017 Request for Proposals (RFP) process, we will allocate funds for Impact Fund projects and to affordable rental housing through our RFPs, with any other remaining funds made available on a pipeline basis in multifamily and through the Incentive Fund in Single Family.

Based on resources available for new activity in 2018, we expect to fund an estimated 683 units.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2019	$6,000,000
New Appropriations 2018	$6,925,000
Repayments, Receipts, Prior Commitment Fallout	$2,000,000
Carry Forward of Unobligated Balances from Previous Plans	$5,728,959
2018 Total	$20,653,959
2017 Original Total	$24,279,779

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

SINGLE FAMILY INTERIM LENDING

Single Family interim loans are used to acquire, rehabilitate, demolish, or construct owner-occupied housing under the Community Homeownership Impact Fund program. Interim loans are financed with Pool 2 funds and have a term of 20 months. Funds are awarded annually through the Single Family Request for Proposals process in accordance with our mission and priorities. While two-thirds of the units supported in the past year have been affordable to households with incomes at or below 80 percent of the area median income, the ongoing need for workforce housing may mean that a greater portion of units supported in the coming year will serve households with incomes between 80 percent and 115 percent of the area median income.

Program Performance and Trends

Performance data on interim lending are reported under the Community Homeownership Impact Fund in the EDHC program. The Impact Fund is the umbrella program under which we deliver the Economic Development and Housing/Challenge Program and interim construction financing, primarily for single family owner-occupied housing.

Proposal for 2018

It is difficult to project the demand for interim financing in any given annual funding round because of the flexible nature of the funding source, which allows for rehabilitation as well as new construction. The 2018 AHP forecast reflects a continued market interest in new construction.

Based on resources available for new activity in 2018, we anticipate making interim or construction loans to administrators for approximately 44 housing units.

Program Funding by Source

Source	Amount
Housing Investment Fund (Pool 2)	$4,400,000
2018 Total	$4,400,000
2017 Original Total	$1,000,000

Legal Authority: Minn. Stat. §462A.05, Subd. 2 and Minn. Stat. §462A.05, Subd. 18; Minn. Rules, Parts 4900.1200-1210

HOUSING INFRASTRUCTURE BONDS (HIBS)

We allocate Housing Infrastructure Bond (HIB) proceeds through the Request for Proposal (RFP) process under both Housing Trust Fund (HTF) and Economic Development and Housing/Challenge (EDHC) rules. If the bonds are issued as private activity bonds, applicants also may access 4 percent housing tax credits

HTF HIB

We provide capital assistance in the form of deferred loans with no or low interest for the acquisition, construction, or rehabilitation of affordable permanent supportive housing. Funding priority is given to housing proposals that serve veterans and their families, households experiencing long-term homelessness, and households at risk of becoming homeless.

Current HTF tenant income limit: 60 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median income with priority for proposals serving households at 30 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median income.

Maximum HTF loan amount: no set limit, subject to funding availability

EDHC HIB

HIB proceeds provided under EDHC rules are deferred loans and may be used to:

- Preserve existing federally subsidized rental housing by funding acquisition, rehabilitation, and refinancing;
- Acquire land to be held in trust by community land trusts and used for affordable single family homeownership opportunities; and
- In certain circumstances, finance the cost of construction, acquisition, and rehabilitation of supportive housing for individuals and families who are without a permanent residence.

Current EDHC income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Maximum EDHC loan amount: None beyond funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing financed through HTF rules:

- Loans to five developments with 403 units
- $42,216,554 total loan amount
- $104,756 average assistance per unit
- Median household income of tenants was $8,796 or 11 percent of the statewide median income
- 54 percent of households were of color or Hispanic ethnicity

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing financed under EDHC rules:

- Three developments assisted with 755 units
- $20,313,737 total loan amount
- $26,906 average assistance per unit

- Median household income of tenants was $26,069 or 34 percent of the statewide median income
- 95 percent of households were of color or Hispanic ethnicity

Proposal for 2018

For 2018, we are budgeting $45.3 million of HIB resources, which we estimate will finance about 595 housing units. From the available funding, we expect approximately 95% to be allocated through the RFP, with the remaining amount available for funding modifications.

Program Funding by Source

Source	Amount
State GO and Infrastructure Bond Proceeds	
New Funding	$37,825,056
Repayments	$1,000,000
Carry Forward of Unobligated Balances from Previous Plans	$6,524,163
2018 Total	$45,349,056
2017 Original Total	$3,000,000

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769 for HTF; and Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652 for EDHC

COMMUNITY OWNED MANUFACTURED HOME PARKS

We are a participating lender investing in loans made by Resident Owned Capital, LLC (ROC-USA), a national nonprofit. ROC-USA lends to resident manufactured home cooperatives to enable them to purchase, own, and manage the parks that they occupy. ROC-USA acts as a lead lender and is responsible for loan servicing and loan origination and takes a lead role in due diligence review. In addition, ROC-USA contracts with Northcountry Cooperative Foundation (NCF), a local nonprofit, to engage cooperatives in development activities, such as organizing the cooperative entity and contracting for third party reports. NCF is retained after closing to provide ongoing technical assistance to the cooperative.

Program Performance and Trends

ROC-USA and NCF are marketing this program. For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing closed one Community Owned Manufactured Home Park loan:

- 125 households
- $1,705,000 loan
- $13,640 average assistance per household

Proposal for 2018

We are funding this program again with $2 million of Pool 2 resources but also examining other ways to serve this market, which includes budgeting $250,000 of Pool 3 resources for a possible pilot.

Based on resources available for this program in 2018, we estimate being able to fund up to 150 units.

Program Funding by Source

Source	Amount
Housing Investment Fund (Pool 2)	$2,000,000
Housing Affordability Fund (Pool 3)	$250,000
2018 Total	$2,250,000
2017 Original Total	$2,000,000

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

TECHNICAL ASSISTANCE AND OPERATING SUPPORT

The goal of Technical Assistance and Operating Support is to enhance the ability of housing and community development organizations to meet Minnesota's affordable housing needs. The programs is used for activities that support every element of our strategic priorities by supporting Community Housing Development Organizations (CHDOs) in Greater Minnesota, helping end homelessness through our support of the Continuums of Care and the Homeless Management Information System (HMIS), and building the strength of organizations working to meet specific needs in communities across the state though the Capacity Building Initiative.

Program Performance and Trends

For the Program Assessment period of October 1, 2015 – September 30, 2016, Minnesota Housing funded $2,579,348 under this program. Past allocations have funded: 1) the Home Ownership Center's statewide counseling network, 2) the maintenance of HousingLink's affordable rental housing information system, 3) the state's HMIS, 4) regional Continuum of Care homelessness assistance planning, and 5) supporting community based organizations across the state though the Capacity Building Initiative.

Proposal for 2018

We will continue funding the core activities. We are also currently examining our approach to supporting multifamily developers, which includes identifying gaps in the information and resources available to organizations that are currently struggling to build their capacity to become engaged in development activities. Over the course of the next year, we will work with stakeholders to identify the next steps for integrating education and training opportunities with grant resources to help grow the field of development with a focus on underserved community needs.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2019	$270,000
New Appropriations 2018	$375,000
Contributions from Other Organizations	$30,000
Housing Affordability Fund (Pool 3)	$1,850,000
2018 Total	$2,525,000
2017 Original Total	$2,655,000

Legal Authority: Minn. Stat. §462A.07, Subd. 6; Minn. Stat. §462A.21, Subd. 3b; Minn. Rules, Parts 4900.1931-1937; 42 U.S.C. §12701 et seq.; 24 C.F.R. Part 92

STRATEGIC PRIORITY CONTINGENCY FUND

During any given year, we anticipate that some programs are likely to need additional resources. To be nimbler and more responsive, we set aside contingency funds to meet unexpected needs.

Proposal for 2018

For 2018, we are providing $1.5 million for the Strategic Priority Contingency Fund.

Program Funding by Source

Source	Amount
Housing Affordability Fund (Pool 3)	$1,500,000
2018 Total	$1,500,000
2017 Original Total	$1,500,000

OTHER

MANUFACTURED HOME RELOCATION TRUST FUND

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay $15 per licensed lot into a trust fund each year. The park owner is authorized to collect funds from each manufactured homeowner either monthly or in a lump sum that is paid to Minnesota Management and Budget for deposit into the trust fund. The fund is available to homeowners who must relocate because the park they occupy is being closed.

The statute sets out a process for determining the amount of money for which a homeowner is eligible. Only those homeowners who paid into the trust fund may receive payment. We make payments to homeowners, as directed by a neutral third party, for eligible relocation costs.

Program Performance and Trends

State law suspends collection of the fee if the balance in the account is equal to or exceeds $1 million. Due to significant payments from the trust fund in 2017, the balance in the fund is below the $1 million required to trigger collection of fees.

Program Funding by Source

Source	Amount
State Appropriations	
Payments	$300,000
Carry Forward of Unobligated Balances from Previous Plans	$159,837
2018 Total	$459,837
2017 Original Total	$1,163,695

Legal Authority: Minn. Stat. §327C.095

STRATEGIC INVESTMENTS/LOANS

Periodically, we have the opportunity to make strategic investments/loans with Pool 2 resources to help address an affordable housing issue. For example, in 2017, we committed up to $5 million to help fund an initiative through the Greater Minnesota Housing Fund to preserve naturally-occurring affordable housing. These investment opportunities and initiatives are not always known when the Affordable Housing Plan is developed, but we want to have the ability to respond quickly when good opportunities arise.

Under this activity, we will have the authority to make these investments/loans, but only after the Minnesota Housing Board of Directors has received a briefing on the parameters governing the initiative. While the precise details of the initiative may not be completely fleshed out at the time of the briefing, it will provide the Board with information on the purpose, nature, and scope of the investment/loan. This will give us the flexibility to work out the final details and act quickly.

Program Performance and Trends

In 2017, we budgeted up to $10 million for an investment in a fund to preserve naturally-occurring affordable housing.

We ended up committing up to $5 million.

Proposal for 2018

The type and size of these of these investments/loans will be determined as opportunities arise.

Program Funding by Source

Source	Amount
Housing Investment Fund (Pool 2)	TBD
2018 Total	TBD
2017 Original Total	$10,000,000

Legal Authority: Minn. Stat. §462.33; Minn. Rules, Parts 4900.3600-3652; and Board adopted Investment Policy, which in relevant part is consistent with Minn. Stat. §11a.24

FLOOD DISASTER

Disaster response programs provide funding for the repair or replacement of renter or owner-occupied housing damaged by natural disasters such as flood or tornado. We distribute these funds through the Quick Start Disaster Recovery program for single family properties and also assist in repairing damaged rental buildings, providing relocation services to renters displaced or homeless due to disasters, building organizational capacity to respond to disasters, and covering administrative costs related to disaster outreach.

Funds are typically delivered through administrators under contract to deliver ongoing Agency programs for the areas impacted by a disaster. These include administrators for the Single Family Rehabilitation Loan Program, the Multifamily Rental Rehabilitation Deferred Loan Program (RRDL), and the Family Homeless Prevention and Assistance Program (FHPAP).

Quick Start provides homeowners and smaller rental property owners with deferred loans at no interest for repair costs that are not covered by federal assistance or insurance proceeds. The loan is forgiven if the homeowner remains in the property for 10 years, or for rental properties, if property owners keep rents affordable for 10 years. There are no income limits under Quick Start.

Program Performance and Trends

Typically, activities have been funded by special appropriations from the Minnesota Legislature following a federal disaster declaration and determination of the level of available federal funding from the Federal Emergency Management Agency and the Small Business Administration. State appropriations have ranged from $1,000,000 for the May 2011 Minneapolis tornado to $12,720,000 for the August 2012 flooding in northeast Minnesota. Over the past six years, Minnesota has seen significant disasters that have required activation of Quick Start and other Agency disaster assistance approximately every 14 months.

For the program assessment period October 1, 2015 – September 30, 2016, Minnesota Housing did not fund any loans under this program.

Proposal for 2018

Typically, the Minnesota Legislature appropriates funds following the declaration of a disaster. Thus, we have not budgeted funds for this program.

Program Funding by Source

Source	Amount
State Appropriations	
New Appropriations 2018	$0
2018 Total	$0
2017 Original Total	$0

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652 and Minn. Stat. §12A.09

DISASTER RELIEF CONTINGENCY FUND

The Minnesota Legislature established this fund in 2001 as the account into which we deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas covered by a presidential declaration of disaster. Funding also may be used for capacity building grants for disaster response and flood insurance payments.

The terms and conditions under which the funds are made available are at the sole discretion of Minnesota Housing.

Program Performance and Trends

Eligible uses of funds have included writing down the interest rate on Home Improvement Loans and activating the Quick Start Disaster Recovery program.

Most recently, for last year's flood event in Southern Minnesota, we have closed 12 loans for $176,823 and currently have 19 loans in process for a total of $ 307,667.

Proposal for 2018

The resources in the table below reflect the funds currently available in the fund.

Program Funding by Source

Source	Amount
State Appropriations	
Repayments and Receipts	$100,000
Carry Forward of Unobligated Balances from Previous Plans	$1,400,477
2018 Total	$1,500,477
2017 Original Total	$1,925,934

Legal Authority: Minn. Stat. §462A.21, Subd. 29; Laws of Minnesota 2003, Chap. 128, Art. 10, Sec. 4, Subd. 2

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