HOME Single Family Programs

HOME funds will be available for the renovation or new construction and sale of single-family dwellings, Home Ownership Works (HOW) Program. HOME funds may be used for any of the following activities: acquisition, demolition, renovation/repairs or new construction. City programs will not invest any more HOME funds, in conjunction with other governmental (federal, state and local sources) than is necessary to provide affordable housing as defined by the HOME regulations. The City Council has approved the HOW Program Guidelines which mirror the Consolidated Plan language. The maximum HOME funding included in any ownership project, including any development subsidy and affordability subsidy will not exceed the Twin Cities Area Maximum HOME subsidy limits established by HUD.

<u>Home Ownership Works (HOW)</u>

Home Ownership Works (HOW) is designed to provide and sustain affordable, owner-occupied, 1-4-unit housing for low and moderate-income purchasers throughout Minneapolis and reduce racial disparities in homeownership. The City has two methods of operationalizing such homeownership assistance. Both include either rehabilitation or new construction. One is through a recapture method and a second is through a resale method.

- Properties may be owned by the City of Minneapolis during the renovation/construction period. All properties will meet the HOW Program Standards which exceed the minimum City code requirements. Developers will provide the City with a scope of work and pro-forma to either rehabilitate 1-4-unit housing or construct a new 1-4-unit housing on the site. Developers will provide construction management and marketing services and private licensed general contractors will be selected through a sealed bid process conducted by the developer to complete the required renovation/repairs or new construction. City staff will inspect the property, review the scope and the pro forma and make a determination on program eligibility and the estimated amount of subsidy necessary to complete the project. City staff will monitor construction on all approved projects. Non-HOME funds may be used to provide interim financing when possible

- Developers may alternatively identify properties to acquire and develop under the HOW program. They will provide the City with a scope of work and pro-forma to either rehabilitate the 1-4-unit housing or construct a new 1-4-unit housing on the site. All properties will meet the HOW Program Standards. City staff will inspect the property, review the scope and the pro forma and make a determination on program eligibility and the estimated amount of subsidy necessary to complete the project. City staff will monitor construction on all approved projects.

Target Buyers

All HOW-assisted 1-4-unit housing will be affordable to a reasonable range of low-income homebuyers between 30-80% AMI.

Target Houses

It is anticipated that a large number of properties will be either in need of moderate to substantial rehabilitation or vacant lots suitable for 1-4-unit housing development. The City has determined that there is a need for affordable housing throughout the City. Properties assisted with HOME funds under the HOW program will be for 1-4-unit housing. The program will operate within the City of Minneapolis limits.

Approved Participation

Any developer receiving development assistance, or their agent, will perform property selection, buyer outreach, marketing, rehabilitation and construction. However, in instances where the properties will be owned by City during the development process, the City will contract to perform construction management services and marketing.

Evaluating the development and fiscal capacity of developers

All eligible developers must be vetted through an application process using criteria approved by the Minneapolis City Council. Before any new developer is added, they will be vetted by City staff based on their experience on successfully taking on similar projects, experience with the Minneapolis Plan Review process, experience with the Minneapolis Department of Civil Rights and familiarity with the use of public funds. This process will be evaluated by a team of the City's Housing Division staff. Any owner-occupant applying directly will need to work in cooperation with an eligible developer.

Regarding the fiscal capacity of the developer, on an annual basis, each eligible developer will submit their audited financials for review. Upon receipt, a representative from Minneapolis' Finance Department will review and provide recommendations related to the soundness of the entity. Should there be any significant red flags, the developer will be required to provide a satisfactory response to enable the City to continue to contract with them under the HOW program.

Marketing

HOW properties will be affirmatively marketed and advertised by posting on the MLS for a minimum of 10 days. Sale prices will not exceed 95 percent of the area median purchase price or after-rehabilitation price for 1-4-unit housing, as determined by the HUD Secretary. If more than one offer is received from qualified homebuyers, preference will be given in the following order:

1. Income Eligibility – if households are not income eligible, they will be disqualified

2. Household Size – applicants whose household size is less than the number of bedrooms in the unit plus one will only be selected if there are no qualified applicants of a compatible size for the unit
3. Preference Policy (if applicable) – applicants who meet the criteria of any City approved preference policy if the unit is subject to the Preference.
4. Current Renters – households that don't own a home

If all of the selection criteria above are applied and there are still multiple applicants for a housing unit, then a randomized selection will be conducted.

Property Selection, Purchase and Development Gap Assistance

Once a property is identified for inclusion in the HOW Program, the City will review the estimated proforma and, when appropriate, authorize the purchase of the property and the use of HOME funds for project gap, defined as the difference between the total development cost of a home and the affordable price for a buyer at or below 80% of area median income, and affordability gap, which is the difference between appraised value and what the homebuyer can obtain for first mortgage financing.. The total gap will be provided to the developer as a development assistance loan to facilitate construction and reconciled based upon actual need at the conclusion of the project.

Citizen Participation

The City will follow the approved process for neighborhood notification for all properties acquired and disposed by the City through this program.

Rehabilitation

Rehabilitation standards are established by the City for this program and include energy efficiency, environmental hazard reduction, and material quality standards. Homes will be inspected to ensure conformance to the programmatic standard.

New Construction

New construction standards include compliance with the Minnesota Overlay for Enterprise Green Communities and visitable design for ground floor units of a property.

Buyer Financing

<u>First Mortgage Lending</u>
Under HOW, eligible households will apply for a private mortgage loan. Purchasers will need a minimum of a 1% down payment or $1,000, whichever is greater.

PROGRAM 1: RECAPTURE

The recapture program will only be available in North Minneapolis for development of City-owned property, due to the concentration of properties owned by the City in North and the naturally occurring affordable prices in the North geography, which has been disproportionately impacted by the housing foreclosure crisis from 2008-2012 and a tornado in 2011. The recapture program is only available when affordability gap is 15% of the appraised value of the home or less. Affordability gap, or direct assistance, will be used to bridge the gap between the buyer's maximum affordable first mortgage amount, using Metropolitan Council affordability standards, as determined by the mortgage lender underwriting process, and the sale price. In addition, direct assistance can be provided to cover the buyers' eligible closing costs. The City has set a total monthly debt to income ratio of 50% as the standard for determining if it is appropriate to provide direct subsidy to the purchaser. The City will not invest any more HOME funds than is necessary to make the housing unit affordable to an income eligible household. In instances where purchasers receive direct affordability assistance to purchase a home, it will be in the form of subordinate financing and a mortgage will be placed against the property. The direct assistance amount will be due and payable upon the earliest of (1) the sale or refinancing of the home; (2) a default in any note or mortgage requirements; (3) satisfaction of the first mortgage loan or (4) 30 years. Upon one of the foregoing, the repayment of the entire amount of direct buyer assistance is due out of Net Proceeds. If there are not sufficient Net Proceeds to repay the entire amount of the City's direct buyer assistance, the balance of direct buyer assistance will be forgiven. Remaining Net Proceeds of sale may be retained by the original occupant of the HOME unit. Net Proceeds is defined as any and all consideration of any kind whatsoever, whether direct or indirect, that is received by the Borrower for, or in connection with, any sale, assignment, conveyance, transfer, lien or encumbrance of the property less any senior debt secured against the property and customary closing costs. If there is no transfer of 100% of the original occupant's interests in the property at the time of default or maturity or if the transfer is not an arms-length transaction, Net Proceeds means the fair market value of the property less outstanding senior debt. No resale provision will apply.

The recapture option will only be available in the Camden and Near North communities of North Minneapolis. The dual effects of the Minneapolis tornado in 2011 and foreclosure crisis from 2008-2014 significantly impacted North Minneapolis market values, resulting in homes that are naturally affordable to households below 80% AMI and a concentration of city-owned property. To provide wealth building opportunity for households below 80% AMI within North Minneapolis, the recapture option will be available if the direct affordability assistance is less than 15% of the appraised value of the home being purchased. Affordability period in recapture will be based on the amount of direct HOME subsidy received by the homebuyer, even though the maturity date of the affordability gap (direct) assistance loan will be a 30-year term. The affordability period is based on the amount of direct subsidy received by the homebuyer in accordance with the following table:

Per unit amount of HOME funds	Minimum Period of Affordability

Under $15,000	5 Years
$15,000 - $40,000	10 Years
Over $40,000	15 Years

If the purchaser does not transfer 100% of the purchaser's interest in the Property and fails to maintain the property as their principal residence during the affordability period, the full direct buyer assistance amount plus any development subsidy amount shall be immediately due and payable regardless of Net Proceeds of sale.

Any repayments received will be placed into the Minneapolis HOME account.

Program 2: Perpetually Affordable Housing (PAH) (Resale)

The resale option is designed to provide and sustain perpetually affordable, owner-occupied, 1-4-unit housing for low and moderate-income purchasers throughout Minneapolis and reduce racial disparities in homeownership.
The only instance where the City will use a resale provision will be when properties are sold through the City of Lakes Community Land Trust or another land trust using the same formula described below to ensure a fair return on investment consistent with federal requirements and which has mechanisms in place to ensure perpetual affordability for target buyers as part of their program. In cases where a lower income purchaser needs additional financial assistance to ensure that the home is affordable, the City will provide assistance to the land trust to enable the land trust to write down the purchase price for the improvements.

Under a land trust model, the homebuyer only purchases the improvements. The land trust retains fee title to the land. The homeowner can recover its purchase price for the improvements and its share of market value appreciation. The resale option will only be available if the affordability gap assistance provided by the City and land trust cumulatively exceeds 20% of the appraised value of the home being purchased.

Homes will be sold for their affordable price for the income tier that is being served. The program has three income tiers, the applicable tier is selected by applicants at the time of application.

Income tier	Financed Unit Sale Price limit
61% - 80% of AMI	Price affordable to a household at 70% AMI
41-60% of AMI	Price affordable to a household at 50% AMI
40% and below AMI	Price affordable to a household at 30% AMI

Affordable price for each income tier will utilize the following assumptions and be published annually by the City in the 2nd quarter of a calendar year:

- Metropolitan Council assumptions to calculate mortgage loan principal and interest payments, insurance, and taxes
- City assumptions for perpetual affordable housing administrator fees,
- Department of Housing and Urban Development published Income calculations for Area Median Income, adjusted for household size
- Project specific condominium association fees

The above assumptions will be utilized to calculate an affordable purchase price that does not exceed 29% of household income based on income tier, adjusted by the number of bedrooms in a unit. The program will additionally apply a standard to ensure the buyer's total debt ratio does not exceed 50% of AMI.

At resale, the home is made affordable to substitute income qualified homebuyers because the new homebuyer only has to finance the improvements and the sale price is restricted by the terms of the ground lease. At resale, the purchase price must be affordable to a reasonable range of low-income homebuyers defined in the Target Buyers paragraph above. These requirements are spelled out in a Declaration of Restrictive Covenants and all necessary documents related to the developer's program (i.e. land trust ground lease and housing subsidy covenant.) The City will retain an option to enforce the Declaration requirements if the land trust fails to do so.

The proposed resale restriction will comply with federal requirements, ensuring the initial purchaser with a fair return on their initial investment. To determine a fair return on investment the land trust will calculate a fair return on investment using the following methodology:

1) A calculation of Market Value Appreciation will be performed. An independent 3rd party appraiser will establish the Current Appraised Value of the property, and the Initial Appraised Value of the property will be subtracted to establish the Increase in Market Value Appreciation.
2) A 25% Shared Appreciation Factor will be applied to the Increase in Market Value Appreciation to determine the initial purchaser's Share of Market Value Appreciation.
3) Fair Return on Investment will be calculated by adding the Share of Market Value Appreciation, plus down payment costs, plus principal paid on Qualified Capital Improvements. Qualified Capital Improvements means those certain improvements made to the Improvements on the Premises at initial purchaser's expense which add significant value to the Improvements and which are capital in nature. Improvements which would qualify as Qualified Capital Improvements include, without limitation: the construction of additions, rooms, garages, bathrooms and kitchen remodeling. However, expenditures for maintenance, such as roof replacement, and the updating or replacement of appliances such as furnaces, water heaters and kitchen appliances, would not qualify as Qualified Capital Improvements herein.

See Exhibit A for an example of a sample calculation for resale of a land trust assisted unit.

The resale of any eligible property will not exceed 95 percent of the area median purchase price or after-rehabilitation price for single family housing, as determined by the HUD Secretary.

All purchasers will be required to maintain the property as their principal residence for the period of affordability as shown below

The affordability period(s) for resale is based on the total amount of HOME funding in the project in accordance with the following table:

Per unit amount of HOME funds	**Minimum Period of Affordability**
Under $15,000	5 Years
$15,000 - $40,000	10 Years
Over $40,000	15 Years

EXHIBIT A
SAMPLE CALCULATION OF FORMULA PRICE
UNDER THE GROUND LEASE

The "Initial Appraised Value" is $187,000.00.

"Land Lessee's Purchase Price" is $125,500.00.

Based on the above information the following table can be used to calculate the Land Lessee's share of Market Value Appreciation and Seller's Income.

a) Calculation of Shared Market Value Appreciation: Market Value Appreciation shall be determined by subtracting from the Current Appraised Value the Initial Appraised Value and deducting appraised value attributable to Capital Improvements made by the Land Lessee. Following is a table for calculating Shared Market Value Appreciation:

Current Appraised Value (at time of sale)	$197,000
Minus **Initial Appraised Value** (at date of Ground Lease)	– $187,000
Equals **Increase in Market Value Appreciation**	= $ 10,000
Minus **Capital Improvements Appraised Value**	**-** $ 8,400
Equals **Shared Market Value Appreciation**	**=** $1,600

b) Calculation of Land Lessee's Share of Increases in Market Value: Land Lessee's Share of Market Value Appreciation shall be determined by multiplying the Shared Market Value Appreciation by twenty-five percent (25%) and then adding the principal paid on Capital Improvements by the Land Lessee. Following is a table for calculating Land Lessee's Share of Increase in Market Value of the Improvements:

Shared Market Value Appreciation	$ 1,600
multiplied by **Shared Appreciation Factor**	x 25%
equals the **Land Lessee's Share of Market Value Appreciation**	= $400
Plus principal paid on **Capital Improvements**	+ $8,400
Equals the Land Lessee's Share of Market Value Appreciation	= $8,800

c) Land Lessee Seller's Income: This amount establishes the estimated amount that the Land Lessee seller will receive upon sale. This figure includes the Land Lessee's Share of Market Value Appreciation, *applicable down payment costs*, and *earned principal paid on the first mortgage*.

Land Lessee's Share of Market Value Appreciation	$ 8,800
plus **applicable down payment costs**	+
plus **principal paid on first mortgage**	+ $5,000
less **recapture down payment assistance**	**-**
equals **approximate Land Lessees Seller's Income**	= $13,800