

# Minneapolis Homes: Perpetually Affordable Housing Guidelines

## Program Goal

The goal of the Minneapolis Homes: Perpetually Affordable Housing (PAH) Ownership Land Trust program is to eliminate racial disparities in homeownership and provide sustainable and accessible homeownership opportunities to low to moderate-income households throughout the City of Minneapolis.

## Eligible Homebuyer

- Must be at or below 80% AMI and in alignment with additional Minneapolis Homes: PAH Ownership Land Trust program income and household size guidelines.
- Homebuyers must complete homebuyer education.

## Eligible Financing

- Must utilize any fixed-rate portfolio FHA, VA, Fannie Mae, or Freddie Mac insured or uninsured loan product that is generally considered in the lending industry to be an “A” or “prime” lending product.
- May use a contract for deed financed and held by a nonprofit developer provided that the nonprofit developer does not sell the contract for deed without the written approval of the City. The contract for deed program must be approved by the City prior to participation in the PAH program, and the Contract for Deed Vendor must co-sign the Declaration providing for perpetual affordability.
- Down payment assistance programs that are not financed through the Minneapolis Department of Community Planning and Economic Development (CPED) may be layered to provide greater opportunity for the borrower to secure the purchase of a home.

## Eligible Units

Projects of one to 20 units for ownership housing on a parcel or contiguous parcels within the City of Minneapolis. Units are financed through Minneapolis Homes: Financing created through Inclusionary Zoning or may be enrolled in the program through other methods as approved by the CPED Director.

## Unit Type and Affordable Sales Price

Unit type is the combination of the number of bedrooms in a PAH unit and the income tier for the household being served. The program has three income tiers, the applicable tier is set on a per-unit basis at the time of application. Households in lower income tiers may apply for homes available in higher income tiers, subject to underwriting guidelines being met.

Income tier	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

The initial affordable price for each income tier will utilize the following assumptions and be published annually:

- Metropolitan Council assumptions to calculate mortgage loan principal and interest payments, insurance, and taxes
- City assumptions for perpetually affordable housing administrator fees
- Department of Housing and Urban Development published Income calculations for Area Median Income, adjusted for household size.
- When applicable, the City shall include homeowner association fees specific to the project proposed.

The above assumptions will be utilized to calculate an affordable mortgage that does not exceed 30% of household income, adjusted by the number of bedrooms in a unit. The program will also apply a standard to ensure that a household’s total debt ratio does not exceed 50%.

## Initial Sales Requirements

The PAH unit affordable price must be set with a minimum discount of 20% below the market price. A declaration of restrictive covenants for 30 years that is renewed upon each property sale will be recorded upon sale. The Declaration utilizes shared equity resale requirements that prevent additional subsidy needed to maintain affordability and that apply to the first purchaser and each subsequent purchaser of the unit.

## Marketing of Units

All available PAH units must be broadly advertised and affirmatively marketed, including public posting using culturally-specific mediums and public platforms that are free to access, for a minimum 10-day application period. The marketing plan must be submitted with proposals aligned with the PAH manual. Individuals interested in receiving notices about available PAH units may sign up for the Minneapolis Homes newsletter.

## Selection of homebuyers

The following criteria will be applied in the following order to select homebuyers for PAH units:

- 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 – applicants who meet the criteria of a City approved preference policy.
- 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 lottery will be conducted by the Qualified Administrator.

## Resale

PAH Transfer Procedures, as detailed in the manual and PAH Declaration, requirements apply. PAH units in the City's land trust, which includes all ownership units created through inclusionary zoning, will appreciate using a fixed rate of return formula that increases the below-market affordable price by 2.5% compounded annually, dependent upon the market. Additional credit can be provided for specific capital improvements to the home during the time of ownership detailed in the manual. The example below is a PAH unit initially sold at the discounted market price of \$250,000 and would have a cap on the sales price at \$282,920, as calculated by the Qualified Administrator, if resold five years later with no capital improvements (see example table below).

<u>Year</u>	<u>Maximum PAH Sales Price</u>
0	\$ 250,000
1	\$ 256,250
2	\$ 261,375
3	\$ 267,909
4	\$ 274,607
5	\$ 282,920

## Administration Fees

Qualified Administrators are expected to ensure the following tasks are completed in accordance with the PAH manual. QAs will be eligible to earn fees through the sale of City PAH units.

Function	Description
Education	Providing education to prospective homebuyers about the City PAH model
Initial Sale	Marketing and initial sale of a PAH unit
Monitoring	At least annual monitoring to ensure homes remain owner-occupied, communicate increases in value, and continue to comply with program requirements
Resale	Marketing and resale of a PAH unit
Refinance	Costs incurred by QAs to process subordination requests or communicate with 1 <sup>st</sup> mortgage lenders, if requested by the homeowner

## Qualified Capital Improvement Credit

Qualified Capital Improvement is any permanent structure or other asset added to a property that adds to its value. Expenditures for maintenance, such as repairing roofs and appliances such as furnaces, water heaters, and kitchen appliances, do not qualify as Qualified Capital Improvement. The City of Minneapolis' Qualified Administrators have the right to approve/disapprove any proposed Capital Improvement. Generally, the Qualified Administrator will approve a proposed Capital Improvement provided the Homeowner follows the process outlined in the process flow; the proposed funding of the project is reasonable, and the proposed work does NOT significantly impact the future affordability of the property or be perceived as a luxury item.

The City of Minneapolis recognizes that some home improvements completed add either market value or some long-term value. Thus, this policy would allow providing credit to the resale formula for a home in the City's Perpetually Affordable Housing (PAH) model for two tracks for Qualified Capital Improvements (QCIs): appraisal-based permanent improvement, structure or another asset that adds to the value to the PAH unit and either (i) that increase the habitable square footage (such as basement finishing or accessory dwelling unit) (ii) adds new garage, patio or deck, or (iii) substantial permanent capital improvement that is a significant upgrade (remodeling a bathroom, bedroom, or kitchen) (Track A) or cost-based for significant systems replacement or upgrades (Track B).

To qualify for the credit, the QCI must have a minimum cost of \$2,000, obtain the required permit (if needed), and pass a housing inspection by the qualified administrator. The homeowner must apply (Attachment A) to their qualified administrator before starting the work on the QCI, which the qualified administrator will acknowledge (Attachment B) after the inspection of work is completed. If a homeowner is not satisfied with the valuation of the improvement, they may request a re-valuation from the qualified administrator.

Suppose a QCI involves work that includes a combination of both Track A & Track B. In that case, the default will be the Track A process (e.g., in adding insulation to a new bedroom, it will fall under increasing square footage, not increasing energy efficiency)

Grant funds used for home improvements (either Track A or B) are not eligible for inclusion in the credit.

### **TRACK A: Additional bathroom(s) and/or bedroom(s)**

At the time of the sale, our resale formula recognizes 100% of the increase in value directly attributable to the addition of permitted bedroom(s) and/or bathroom(s).

To receive this credit, you must complete the QCI Application before the work starts on adding the bathrooms and/or bedrooms and provide documentation that the work is properly permitted; the homeowner and the Qualified Administrator will execute the QCI Acknowledgment after completion of the work, which will document the approval and completion of the improvement.

The City requires that the homeowner consult with their Qualified Administrator before construction. The consultation can include a walk-through, review of plans and/or contractor bids, or refer to resources.

At resale, the usual fee simple appraisal is performed as specified in the Declaration of Covenants. In this appraisal, the QCI is called out as a separate line item to determine the value of the QCI. 100% of the value of this approved improvement will be added to the Purchase Option Price outlined in the land lease or affordability covenant.

## **TRACK B: Significant systems upgrades**

Our resale formula recognizes 50% of the cost of major systems replacements done within five years before resale. The major systems upgrades include replacements/ significant upgrades (not repair) of items such as roofs, furnaces, plumbing, electrical, foundation, and energy efficiency. (See list attached.)

To receive this credit, the homeowner must apply (Attachment A) to their qualified administrator before starting the work on the QCI, provide at least two licensed contractor bids and proof of payment, and the qualified administrator and homeowner will execute the Acknowledgment (Attachment B) after the inspection of work is completed.

The City requires that the homeowner consult with their Qualified Administrator before construction. The consultation can include a walk-through, review of plans and/or contractor bids, or refer to resources.

If you sell within five years after the work is performed, you will receive 50% of the actual costs (after any rebates, i.e., Energy Trust) as a credit to be added to the Purchase Option Price. If the home is sold after five years, no credit will be provided for Capital Improvements.