



Agenda
Minnetonka Economic Development Authority
Monday, Oct. 3, 2022
Following the 6:30 p.m. regular meeting
Council Chambers

1. Call to Order
2. Roll Call: Schack-Wilburn-Calvert-Schaepfi-Coakley-Kirk-Wiersum
3. Approval of Agenda
4. Approval of Minutes:
 - A. Sep. 12, 2022 EDA meeting minutes
5. Business Items:
 - A. Resolution approving amendments to various loan programs and creating additional loan programs for residents of and businesses within the City of Minnetonka

Recommendation: Adopt the resolution (4 votes)
6. Adjourn

Minutes
Minnetonka Economic Development Authority
Monday, September 12, 2022

1. Call to Order

Wiersum called the meeting to order at 10:25 p.m.

2. Roll Call

Commissioners Brian Kirk, Rebecca Schack, Kimberly Wilburn, Deb Calvert, Bradley Schaeppi, Kissy Coakley and President Brad Wiersum were present.

3. Approval of Agenda

Kirk moved, Calvert seconded a motion to approve the agenda, as presented.

All voted "yes". Motion carried.

4. Approval of Minutes:

A. July 18, 2022 EDA meeting minutes

Calvert moved, Schack seconded a motion to approve the minutes, as presented.

Kirk, Schack, Wilburn, Calvert, Schaeppi and Wiersum voted "yes". Coakley abstained.
Motion carried.

5. Business Items:

A. 2023 Preliminary HRA Levy

Community Development Director Julie Wischnack gave a report on the item.

Calvert moved, Coakley seconded a motion to adopt EDA Res. 2022-008 setting a preliminary 2023 HRA tax levy and budget.

All voted "yes". Motion carried.

6. Adjournment

Kirk moved, Wilburn seconded a motion to adjourn the meeting at 10:29 p.m.

All voted "yes". Motion carried.

Respectfully submitted,

Becky Koosman
City Clerk



**Economic Development Authority
Agenda Item 5A
Meeting of Oct. 3, 2022**

Title: Minnetonka down-payment/closing cost and Pathways to Homeownership assistance programs

Report From: Alisha Gray, EDFP, Economic Development and Housing Manager

Submitted through: Mike Funk, Executive Director
Julie Wischnack, AICP, Community Development Director
Darin Nelson, Assistant Treasurer

Action Requested: Motion Informational Public Hearing
Form of Action: Resolution Ordinance Contract/Agreement Other N/A
Votes needed: 4 votes 5 votes N/A Other

Summary Statement

This item addresses two programming items requiring action by the Economic Development Authority (EDA). The report summarizes the staff recommendation for developing a new Pathways to Homeownership program and modifications to the existing down payment assistance program.

Recommended Action

Adopt the resolution approving the programs.

Strategic Profile Relatability

Financial Strength & Operational Excellence Safe & Healthy Community
 Sustainability & Natural Resources Livable & Well-Planned Development
 Infrastructure & Asset Management Community Inclusiveness
 N/A

Statement: This action supports homeownership opportunities in Minnetonka.

Financial Consideration

Is there a financial consideration? No Yes \$300,000 (AHTF)
Financing sources: Budgeted Budget Modification New Revenue Source
 Use of Reserves Other [Enter]

Statement: The proposed source of funding for the Pathways to Homeownership Program is the Affordable Housing Trust Fund (AHTF). The existing Welcome to Minnetonka program will utilize the existing fund balance of \$555,000 in the HRA Levy fund for the expanded program.

Background

The EDAC and City Council expressed interest in developing a new program that would provide an opportunity for first-generational homebuyers to purchase a home in Minnetonka. Over the past several months, staff met with the EDAC and City Council to discuss opportunities for a new program.

Down Payment Assistance Programs

Minnetonka down-payment Assistance Program (modified program)	Pathways to Homeownership (new program)
Name: Welcome To Minnetonka	Name: Pathways to Homeownership
Source: HRA Levy (\$940,000 committed to a down payment and rehab loans) - \$555,000 balance remaining for programs.	Proposed Source: Indirect ARPA (\$300,000 initial contribution.
Proposed Terms: Maximum Amount: Up to \$50,000 (previously \$15,000 maximum) Terms: <ul style="list-style-type: none"> • 1% interest, 30-year deferred loan (no payments) – due if refinanced or sold prior to 30 years. Forgiven if in the home for 30 years. • The borrower must contribute \$3,000 of the total down-payment or closing costs • Assets cannot exceed \$25,000 (does not include non-cash assets or retirement) - can limit asset maximum to the first \$200,000 of retirement savings. 	Proposed Terms: Maximum Amount: Up to \$75,000 Terms: <ul style="list-style-type: none"> • 0% interest- repaid if sold or not owner-occupied before 30 years (not forgiven). • The borrower must contribute \$1,000 in down- payment or closing costs • Assets cannot exceed \$25,000 (does not include non-cash assets or retirement) – can limit asset maximum to first \$200,000 of retirement savings.
Homebuyer Eligibility: <ul style="list-style-type: none"> • Homebuyers earning up to 120% AMI (\$141,840 for a family of 4) - Assistance is prorated based on need, not maximum eligible • A credit score of 620 or higher • Must occupy the home as the primary residence • Must be a legal resident 	Homebuyer Eligibility: Borrower may not have owned a home within the past seven years. <ul style="list-style-type: none"> • Homebuyers earning up to 120% AMI (\$141,840 for a family of 4) - Assistance is prorated based on need, not maximum eligible • Must be a legal resident • A credit score of 620 or higher • Must occupy the home as the primary residence
Max. Home Price: 12-month median sales price for Minnetonka (June 2022 is \$450,000) - (previously established by MN Housing First	Max. Home Price: 12-month median sales price for Minnetonka (June 2022 is \$450,000)

Minnetonka down-payment Assistance Program (modified program)	Pathways to Homeownership (new program)
Time Homebuyer Program Limit \$372,600 in 2022)	
Home Energy Squad: City will pay for Home Energy Squad visit within a year (<i>newly added to assist with energy efficiency and cost savings</i>)	Home Energy Squad: City will pay for the Home Energy Squad visit within a year.
Underwriting Costs: <ul style="list-style-type: none"> \$1,100 per loan closed \$5,000 annual fee (for all programs managed by CEE) 	Underwriting Costs: <ul style="list-style-type: none"> \$1,100 per loan closed \$5,000 (for all programs managed by CEE) \$1,500 one-time setup fee for programs managed by CEE (software setup, etc)

Proposed Down Payment Assistance

The newly proposed Pathways to Homeownership Program expands assistance to first-generation households earning up to 120% AMI based upon 2022 income limits for a family of four. The amount of assistance is tiered to provide the most assistance to the lowest income borrower and is adjusted based on the purchase price. The chart below illustrates the highest amount of assistance by purchase price and income level. The amount of assistance adjusts based on the actual purchase price of the property. Both the maximum purchase price and the income limits will be adjusted annually.

Purchase Price	10% assistance at 120% AMI	Balance (mortgage)	15% assistance at 80% AMI	Balance (mortgage)	20% assistance at 60% AMI	Balance (mortgage)	25% assistance at 50% AMI	Balance (mortgage)
\$ 200,000	\$ 20,000	\$ 180,000	\$ 30,000	\$ 170,000	\$ 40,000	\$ 160,000	\$ 50,000	\$ 150,000
\$ 250,000	\$ 25,000	\$ 225,000	\$ 37,500	\$ 212,500	\$ 50,000	\$ 200,000	\$ 62,500	\$ 187,500
\$ 275,000	\$ 27,500	\$ 247,500	\$ 41,250	\$ 233,750	\$ 55,000	\$ 220,000	\$ 68,750	\$ 206,250
\$ 300,000	\$ 30,000	\$ 270,000	\$ 45,000	\$ 255,000	\$ 60,000	\$ 240,000	\$ 75,000	\$ 225,000
\$ 325,000	\$ 32,500	\$ 292,500	\$ 48,750	\$ 276,250	\$ 65,000	\$ 260,000		
\$ 345,000	\$ 34,500	\$ 310,500	\$ 51,750	\$ 293,250	\$ 69,000	\$ 276,000		
\$ 350,000	\$ 35,000	\$ 315,000	\$ 52,500	\$ 297,500				
\$ 375,000	\$ 37,500	\$ 337,500	\$ 56,250	\$ 318,750				
\$ 400,000	\$ 40,000	\$ 360,000	\$ 60,000	\$ 340,000				
\$ 418,000	\$ 41,800	\$ 376,200	\$ 62,700	\$ 355,300				
\$ 425,000	\$ 42,500	\$ 382,500	\$ 63,750	\$ 361,250				
\$ 435,000	\$ 43,500	\$ 391,500	\$ 65,250	\$ 369,750				
\$ 450,000	\$ 45,000	\$ 405,000						

Metropolitan council affordable home price:

- 120% AMI: purchase price, less city assistance at 10%, affordable up to \$450,000
 - This scenario provides up to \$45,000 in assistance

- 80% AMI: purchase price, less city assistance at 15%, affordable up to \$418,000
 - This scenario provides up to \$62,700 in assistance
- 60% AMI: purchase price, less city assistance at 20%, affordable up to \$345,000
 - This scenario provides up to \$69,000 in assistance
- 50% AMI: purchase price, less city assistance at 25%, affordable up to \$300,000
 - This scenario provides up to \$75,000 in assistance

Maximum home price (mortgage amount after assistance):

- Based upon the median home sales price in Minnetonka for a 12-month period reported monthly in the MN realtor's association local market update report.
- On Sept. 15, 2022, the rolling 12-month median was roughly \$450,000, with an average sales price of \$518,586.
 - As of Sept. 15, 2022, four single-family properties were listed for sale under \$355,000, and an additional 11 single-family properties for sale under \$450,000. There were 13 condo/townhome properties listed under \$355,000 and a further three properties listed up to \$450,000.

Affordable Home Price by Income Level:

2022 Home Ownership	
Family Income Level	Affordable Home Price
120% AMI (\$141,840)	\$ 450,000
80% AMI (\$89,400)	\$ 355,600
60% AMI (\$70,380)	\$ 276,000
50% AMI (\$58,650)	\$ 227,100
30% AMI (\$35,200)	\$ 129,100

Wealth Building Example Scenario:

Assumptions

- Household of four earning 80% AMI (~\$89,400 per year)
- Purchase price of home \$355,600 (\$2,599 per month) at 5% interest on first mortgage, with 3.5% down
- \$53,340 in down payment assistance
 - Reduces monthly mortgage payment to \$2,160 per month (15% down)
- Property value increases (approximately) 2% each year.

Scenario 1 – Sell home in 12 years with program	Scenario 2 – Sell home in 12 years without program
Value of home at 12 years = \$440,800	Value of home at 12 years = \$440,800
Outstanding mortgage in year 12 = \$230,800	Outstanding mortgage in year 12 = \$262,010
Outstanding down payment = \$53,340	Outstanding down payment = \$0
Total due at sale = \$284,140	Total due at sale = \$262,010
Proceeds from sale = \$156,660 + total benefit includes monthly payment savings over 12 years of \$63,216 = Total benefit after sale \$219,866	Proceeds from sale = \$178,790

Summary and Funding

Staff is proposing utilizing the remaining balance in the HRA Levy fund (Welcome to Minnetonka and Minnetonka Home Enhancement Programs) - \$555,000 - for the expanded down-payment assistance program. The funding source for the new Pathways to Homeownership program is \$300,000 in indirect ARPA funding budgeted for use beginning in 2022. Funding for both programs could be replenished through future HRA levies or the Affordable Housing Trust Fund if there is high demand for the programs into 2023.

Attachments:

- Fifth Amendment to the Loan Origination Agreement
- Exhibit B5 – Total Program Budget
- Exhibit A5 – Program Guidelines

Pathways Comparison to Welcome to Minnetonka and Homes Within Reach

EDAC Subcommittee Agenda – Oct. 8, 2021

St. Louis Park First Generational Wealth Building Homeownership Program Guidelines

Supplemental information:

[City Council Study Session – Sept. 19, 2022](#)

[EDAC Minutes – July 14, 2022 \(Pathways Program\)](#)

[City Council Study Session – June 20, 2022 \(2023-2027 EIP\)](#)

[Information on community wealth building](#)

[EDAC Meeting – July 8, 2021 \(2022-2026 EIP\)](#)

- [Minutes](#)

[City Council Study Session – June 21, 2021 \(2022-2026 EIP\)](#)

[City Council Study Session – Aug. 16, 2021 – Preliminary Budget and 2022-2026 EIP](#)

[Economic Development Authority Sept. 13, 2021 – 2022 Preliminary HRA Levy](#)

[Economic Development Advisory Commission – Nov. 4, 2021 – Wealth Building Discussion](#)

- [Minutes](#)

Exhibit Describing Various Discussions

EDAC Subcommittee meeting on [Oct. 8, 2021](#). Summary of the discussion:

Commissioners Lee Jacobson and Melissa Johnston provided feedback on the idea at the Oct. 8, 2021, subcommittee meeting. Summary of feedback from the meeting:

- The down-payment assistance program should be simple and create successful homeownership opportunities.
 - Make the parameters broad enough that it meets the current Minnetonka market.
 - Sale prices up to \$400,000 or \$450,000.
 - Open up to 120% AMI (Up to \$99,475 for a two-person household)
 - First-time home buyer is defined as a borrower(s) who hasn't owned a home or real estate in the last five years.
 - Loan amounts up to \$50,000 or \$60,000 or 20% of the sale price, whichever is lower.
 - Require buyers to contribute at least 5% of the sales price for closing costs and down payment.
 - Operational suggestions
 - Promote the product through real estate agents and lenders.
 - A potential buyer, or their agent, should be able to determine if they qualify with a one-page questionnaire.
 - Homes sell quickly and close in 30 days, potential buyers need to have a document in hand that shows they qualify and funds in the program are available.
 - Create successful homeownership
 - Require the borrower have two months' reserves for PITI (principal, interest, taxes, and insurance) after closing.
 - Require the homeowner to take a financial literacy/homeownership class.
 - Require the down payment assistance loan to be paid off on the sale of the property like any normal second mortgage.
 - Require a payoff if the first mortgage is refinanced to take equity out.
 - Keep borrowers aware of other maintenance and rehab loan programs in case they need help in the future.

EDAC Subcommittee - recommendation on [Nov. 4, 2021](#). Summary of the discussion:

- Support higher level of down-payment assistance due to high ownership costs in Minnetonka (tie assistance to median home value in Minnetonka)
- Support assistance for households earning up to 120% AMI (roughly \$100k for a two-person household)
- Support to move assistance up from \$15,000 to \$50,000-\$60,000 (one program that serves more people)
- Support program that is repaid at sale vs. forgiven (preserve HRA fund while supporting additional households)
 - Interest in not unduly enriching one segment of Minnetonka residents (i.e., picking winners and losers using taxpayer funds)
- Add as an additional program to support homeownership. Keep Homes Within Reach as an alternative option (receive the benefit of rehabilitation of home at the time of purchase)

City Council Budget discussions – Nov. 15, 2021, and Dec. 6, 2021.

- On [Dec. 6, 2021](#) council members provided feedback to look at implementing wealth-building opportunities for households in Minnetonka and other affordable housing initiatives and ensure equity throughout the programs.

City Council Study Session - [Feb. 14, 2022 and June 20, 2022](#)

- The council provided general feedback on the concept of the program. The council communicated the following discussion points during the meeting:
 - Councilmembers asked about the risk to the city in implementing a new program with higher levels of assistance.
 - Staff confirmed that the assistance would be provided in the form of a second mortgage on the property. If the property were to go into foreclosure, the bank would be repaid first, followed by the city.
 - To date, the Welcome to Minnetonka program has not had any loans that have failed to repay.
 - Councilmembers expressed general interest in preserving the Homes Within Reach program and having a new Pathways to Homeownership Program as an alternative option.
 - Councilmembers also expressed interest in providing up to 20% of the lender's required down payment to minimize the need for the borrower to obtain mortgage insurance.
 - The proposed program provides up to 25% of the required down payment based upon income at the 50% AMI income limit. At 120% AMI, the program provides 10% of the required down payment.
 - The council members provided mixed opinions on whether the program should include a forgiveness component over the term of the loan.
 - In the example provided in the staff report, the program includes a 2% per year forgiveness for first-generation borrowers.
 - The existing program does not contemplate loan forgiveness and is repaid at the sale, refinance, or at the end of the 30-year term (with 0% interest).

EDAC Feedback from [July 14, 2022 meeting](#)

- The EDAC provided additional feedback on the proposed changes to the existing down-payment assistance program and the new Pathways to Homeownership program. The commission unanimously recommended the following:
 - Approve adjusting the existing down-payment assistance program as recommended in the staff report presented on July 14, 2022.
 - Staff updated the guidelines for council consideration on Oct. 3, 2022.
 - Approve the Pathways to Homeownership Program with the program keeping the interest rate at zero percent; removing the forgiveness of two percent of the loan per year; and replacing the first-generation-buyer requirement with the requirement that the applicant has not owned a home in the last seven years.
 - Staff incorporated these changes into the council's final draft to be considered on Oct. 3, 2022.

City Council Feedback form [Sept. 19, 2022 Study Session meeting](#)

- Staff developed the program based on feedback from council and EDAC at previous meetings throughout the year. Below is a summary of additional feedback received at the Sept. 19, 2022, study session meeting.
 - A council member expressed concern with the provision in the Pathways Program that does not allow the participant to have owned a home in the past seven years.
 - The previous draft Pathways to Homeownership guidelines, reviewed by the council, required the buyer to be a first-generation buyer that had not previously owned property or whose parents had not owned property.
 - The feedback from the EDAC was to remove that language and broaden it to a buyer that had not owned a home in the past seven years.
 - The expanded down-payment assistance programs allow borrowers earning up to 120% AMI to receive up to \$50,000 in down-payment and closing costs assistance based upon income (pathways goes up to \$75,000).
 - The main difference between the two programs is not having owned a home and having owned a home within the past seven years. There are programs for both scenarios under the modifications being proposed.
 - The borrower retains the opportunity to build wealth as there is no sales price restriction when the homeowner sells the property. The borrower must repay the original contribution of the down payment assistance provided to purchase the home without interest in the Pathways Program and with 1% interest in the existing down-payment assistance program (previously 3%). No payments are made on the loan over the 30-year term.
 - Refer to page 4 of the staff report for an example of the saving provided to the borrower under the expanded programs.
 - A council member expressed concern that the programs will run out of funding.
 - There is a fund balance of \$555,000 in the existing pool for the down-payment assistance program, which also receives repayments when properties are sold. The proposed funding for the Pathways to Homeownership Program is \$300,000 of indirect ARPA funds. Staff is anticipating that the new Pathways will serve less than ten households. Council can reevaluate the outcome when funds are depleted to determine if continuing the program is a priority for providing homeownership opportunities.
 - The creation of the program meets the city's goals to provide homeownership opportunities to households. The program is limited by available housing priced for sale under \$450,000 in Minnetonka.
 - The city's average contribution to Homes Within Reach per household is \$53,990 (roughly 1/3 of the cost to acquire and rehab the property).
 - A council member recommended capping the retirement assets at \$200,000 for the programs.

- A council member expressed interest in serving lower-income households first.
 - The program is designed to provide the highest level of assistance to the lowest income borrowers and the lowest level of aid to higher income borrowers.
 - The existing down payment assistance program and the newly proposed Pathways program provide timely down payment assistance options for borrowers looking to purchase a home quickly. Limiting the program to serve lower-income households first greatly restricts the use of the funds by excluding buyers who are ready to buy a property. The city receives one to two inquiries a month for the existing program.
 - Additionally, funds roll back into the program when a homeowner sells a property; there is a continuous flow of assistance back into the existing down-payment assistance program.
 - If the council wanted to explore serving only lower-income households through the new Pathways Program, they could propose limiting the area median income to borrowers earning 80% AMI, 60% AMI, or 50% AMI.
- A council member noted that the program is limited to home prices under \$450,000, limiting how many borrowers can participate.
 - Minnetonka's Median Sales Price in Aug. 2022 was \$441,250, with an average sale price of \$526,063.

FIFTH AMENDMENT to the LOAN ORIGINATION AGREEMENT
Between
ECONOMIC DEVELOPMENT AUTHORITY IN AND FOR THE CITY OF MINNETONKA
And
CENTER FOR ENERGY AND ENVIRONMENT

(Minnetonka Home Improvement Loan Program, Pathways to Homeownership Program, and Code Compliance Program)

The Agreement made the 1st day of January, 2018 by and between the ECONOMIC DEVELOPMENT AUTHORITY IN AND FOR THE CITY OF MINNETONKA, with offices at 14600 Minnetonka Blvd, Minnetonka, MN 55345, (the "Authority"), and CENTER FOR ENERGY AND ENVIRONMENT, with its offices at 212 3rd Avenue North, Suite 560, Minneapolis, Minnesota 55401 ("CEE") is hereby amended.

Effective November 1, 2022 EXHIBIT A5 shall replace EXHIBIT A4 and EXHIBIT B5 shall replace EXHIBIT B4.

Section 5. Term and Termination

5.1 Unless earlier terminated as provided in the following paragraphs, this Agreement shall become effective on November 1, 2022 and continue through December 31, 2025.

All other sections of the contract and fees shall remain as written in the original agreement.

IN WITNESS WHEREOF, the parties hereunder set their hands as of the date written below:

ECONOMIC AND DEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF MINNETONKA

CENTER FOR ENERGY AND ENVIRONMENT

By _____
Executive Director

By _____

Date _____

Date _____
#

By _____

TAX ID 41-1647799

Date _____

EXHIBIT B5

TOTAL PROGRAM BUDGET \$500,000

MINNETONKA LOAN PROGRAM BUDGET

A. Loan Program Budget Allocation (includes Loan Set Up Fee and Loan Origination Fee and Annual Administration Fee):

\$300,000 – Pathways to Homeownership
\$100,000 – Code Compliance Program
\$100,000 Welcome to Minnetonka and
Minnetonka Home Enhancement
(Pending HRA levy approval in December 2022)

Budget Notes:

1. CEE shall submit monthly invoices for origination fees and the principal loan amounts of closed loans for that period.
2. Services performed by CEE will initially be funded from the Total Program Budget as stated above and paid in accordance with the following schedule.

(1) Loan Origination Fee Home Improvement Loan:	\$750.00 per loan closed
(2) Loan Origination Fee Down-Payment and Closing Cost Assistance and Pathways to Homeownership	\$1,100 per loan closed
(3) Commercial Code Compliance Program	\$950 per loan closed
(3) Annual Administration Fee	\$5,000
(4) One Time Set Up Fee (Pathways and Code Compliance)	\$1,500
3. **Loan Servicing**
The Authority will contract directly with a servicing company.
4. **Marketing**
Marketing efforts will be supported by CEE, upon request, and marketing costs are not included in the administrative budget. Hourly rates are inclusive of all overhead expenses and will be charged only for hours directly related to the labor of all program marketing. CEE will also be reimbursed by the Authority for any non-labor, out-of-pocket expenses relating to these services on a dollar-for-dollar basis.

EXHIBIT A5

PROGRAM GUIDELINES

This document includes guidelines for the
HOME IMPROVEMENT and DOWN-PAYMENT ASSISTANCE LOAN
PROGRAMS

MINNETONKA LOAN PROGRAM GUIDELINES

The Economic Development Authority in and for the City of Minnetonka (Authority) is making funds available for homeowners to assist with home maintenance and energy improvements, as well as down payment and closing cost assistance for first-time homebuyers. The Minnetonka Home Improvement Loan Program is designed to supplement existing loan programs available from MHFA, CEE, private lenders and other housing resources. Center for Energy and Environment shall serve as the administrator for the Minnetonka Loan Programs and will secure the most beneficial financing based on the borrower's needs independent of the funding source.

Minnetonka Home Improvement Loan

Interest Rate: 3% fixed

Amortization Type: Amortizing. (Monthly Payments Required)

Loan Amount: Minimum of \$2,500 and Maximum of \$15,000.

Total Project Cost: The borrower must have sufficient funds necessary to cover the cost of the entire project (as outlined in the bid(s)). Additional funds may come from personal savings, gifts, or other loan funds.

Loan term: Generally, one year per \$1,000 borrowed. This will be somewhat flexible depending on the size of the loan and the borrower's ability to repay the loan. The minimum term is 1 year; the maximum term will be 10 years.

Eligible Properties: Single family owner-occupied properties located within the geographical boundaries of the City of Minnetonka. Townhomes and Condominiums are eligible, subject to Association Bylaws. Property must have an Estimated Property Tax Value at or below the current annually adjusted Minnesota Housing Limit: \$352,300 (2021). <http://www.mnhousing.gov/sites/homebuyers/startup> . The property must be homesteaded or in the process of being homesteaded. Properties may be held in a Contract for Deed. Also includes properties in the West Hennepin Affordable Housing Land Trust.

Ineligible Properties: Dwellings with more than one unit, cooperatives, manufactured homes, time shares and properties used for commercial purposes. Properties that are held within a trust.

Eligible Borrowers: All borrowers must be legal residents of the United States, as evidenced by a social security number, Including: U.S. Citizens, Permanent Resident Aliens, Non-Permanent Resident Aliens. TAX IDENTIFICATION NUMBERS (ITIN) ARE NOT ACCEPTABLE.

Ineligible Borrowers: Including but not limited to: - Foreign Nationals, Non-Occupant Co-Borrowers, and businesses.

Ownership/Occupancy: Owner- occupied only.

Loan - to - Value Ratio: The ratio of all loans secured by the property, including the new loan, should not exceed 110% of the property value. Half of the improvement value may be added to the initial property value.

Income Limit: The total gross annual household income cannot exceed 120% of the area median income based on household size. The income limits shall be determined by the U.S. Department of Housing and Urban Development (HUD) and is adjusted annually. Income shall be the projected gross income for the upcoming 12 months or the average of the prior two years tax returns if self-employed.

Asset Limit: Borrower may not own a second property. The maximum assets of the borrower, excluding the residential property to be improved and retirement accounts such as a 401k or IRA shall not exceed \$25,000. Assets will generally be defined as: cash on hand, checking and savings. Borrower will be required to fill out a Declaration of Assets form and provide recent bank statements.

Debt - to - Income Ratio: Applicant must have the ability to repay the loan. An applicant who has a debt-to-income ratio in excess of 50% will be ineligible to receive financing.

Credit Requirements: 1) All mortgage payments must be current and reflect no 30 day late payments history in the past 12 month period (without reasonable explanation) 2) All real estate taxes must be current. 3) No outstanding judgements or collections (excluding medical). 4) Bankruptcy must have been discharged for at least 18 months prior to loan closing. 5) The redemption period on prior foreclosures must have occurred at least 18 months prior to the loan application date. 6) Generally, no more than two 60-day late payments on credit report. Any 60 day late requires a documented explanation and reasonable explanation; medical, unemployment, divorce. 7) No defaulted government loans.

Multiple Loans per Property: More than one loan per property is allowed, however, the outstanding balance(s) cannot exceed \$15,000.

Eligible Use of Funds: Loans may be used to finance most interior/exterior, major mechanical and high efficiency energy improvements. Garages, decks, porches, retaining walls and fences can be repaired or replaced. Contractors must be properly licensed and permits must be obtained when required.

- Roofing
- Siding
- Exterior Painting (Contractors are responsible for following the EPA Lead-Based Paint, Renovation, Repair and Painting requirements effective April 22, 2010 and are required to provide a copy of certification with the contract)
- Driveways/Sidewalks/Steps
- Solar
- Windows & Doors (Energy Star)
- Insulation

- Heating Systems (Natural Gas or propane furnace AFUE ≥ 95 / Oil furnace, gas, propane or hot water boiler AFUE ≥ 85)
- Central or Mini-Split Air Conditioning (SEER ≥ 15)
- Water Heater (Energy Star)
- Rain barrels
- Interior remodeling
- Questionable improvements to be presented to the city for approval

Ineligible Use of Funds: Payment for work initiated prior to the loan being approved and closed, unless due to emergency. Recreation or luxury projects (pools, lawn sprinkler systems, playground equipment, saunas, whirlpools, etc.), furniture, non-permanent appliances (unless part of a kitchen remodel), and funds for working capital, debt service, homeowner labor or refinancing existing debts are NOT allowed.

Bids: One bid is required from a qualified, licensed contractor. However the city reserves the right to request additional bids at its discretion. Only 1 bid/material list is required for sweat equity projects.

Sweat Equity / Homeowner Labor: Work may be performed by property owners on a “sweat equity” basis. Loan funds may be used only for the purchase of materials. Loan funds cannot be used to rent tools/ equipment or compensate for labor. The property owner will complete a Homeowner Labor Agreement and a city inspector will determine the ability to complete the project.

Post Installation Inspection: Permits must be obtained and signed off by a City inspector where required; when not required, a post installation inspection will be performed by a city inspector to ensure the work has been completed before any funds will be released.

Loan Security: All loans will be secured with a mortgage in favor of the Economic Development Authority in and for the City of Minnetonka. Borrower will pay all applicable title and filing fees, which may be financed in the loan amount.

Borrower Fees: Borrower will be responsible for a 1% origination fee (which may be financed), mortgage filing and service fees, document preparation, flood certificate and credit report.

Underwriting Decision: Applicants must have acceptable credit history. CEE will approve or deny loans based on a credit report, income verification and other criteria as deemed necessary through CEE’s underwriting guidelines. CEE’s decision shall be final. Appeals can be made to the Authority.

Work Completion: All work must be completed within 120 days of the loan closing. However, when warranted, CEE may authorize exceptions on a case-by-case basis.

Minnetonka Down-Payment and Closing Cost Assistance Deferred Loan

Interest Rate: 1% fixed

Amortization Type: Deferred

Loan Amount: Maximum loan amount of \$50,000. The homebuyer(s) must contribute at least \$3,000 towards the down-payment or closing costs.

- Up to 10% of the purchase price for household income up to 120% AMI
- Up to 15% of the purchase price for household income up to 80% AMI
- Up to 20% of the purchase price for household income up to 60% AMI
- Up to 25% of the purchase price for household income up to 50% AMI

***Income shall be the projected gross income for the upcoming 12 months or the average of the prior two years tax returns if self-employed

Total Project Cost: It is the borrower's responsibility to obtain the amount of funds necessary to purchase the property in accordance with the first mortgage guidelines.

Loan term: Deferred for a period of 30 years or when the borrower sells, transfers title or if the home is no longer the primary residence of the original borrower the entire balance is due and payable. The loan may also become due and payable upon refinance. The loan principal and interest is 100% forgiven if the property has not been sold, transferred and has remained the primary residence of the borrower after 30 years from loan closing.

Eligible Properties: Single-family owner-occupied properties located within the geographical boundaries of the City of Minnetonka. Townhomes and Condominiums are eligible. The maximum homebuyer deferred loan amount will be based on the household's income and the purchase price of the home up to the 12-month median home sale price in Minnetonka, \$450,000 (2022). Properties within the West Hennepin Affordable Land Trust.

Ineligible Properties: Dwellings with more than one unit, cooperatives, manufactured homes, Properties held within a trust.

Eligible Borrowers: The homebuyer(s) **MUST** attend a Home Stretch workshop or any other HUD approved program and provide evidence prior to closing. All borrowers must be legal residents of the United States, as evidenced by a social security number, Including U.S. Citizens, Permanent Resident Aliens, and Non-Permanent Resident Aliens. TAX IDENTIFICATION NUMBERS (ITIN) ARE NOT ACCEPTABLE.

Ineligible Borrowers: Including but not limited to: - Foreign Nationals, and Non-Occupant Co-Borrowers.

Ownership/Occupancy: Must occupy the home as the primary residence.

Loan to Value Ratio N/A

Income Limit: The total gross annual household income cannot exceed 120% of the area median income based on household size. The income limits shall be determined by the U.S. Department of Housing and Urban Development (HUD), and is adjusted annually. Income shall be the projected gross income for the upcoming 12 months or the average of the prior two years tax returns if self-employed.

Documentation Requirements:

- Copy of purchase agreement
- Commitment letter/approval for first mortgage
- Copy of Title Commitment
- Copy of Initial Loan Estimate for first mortgage
- Value of home (property tax or appraisal)
- Certification of Home Stretch Homebuyers course completed

Asset Limit: Borrower may not own a second property. The maximum assets of the borrower shall not exceed \$25,000 (cash on hand, checking and savings) and a maximum of \$250,000 in retirement accounts such as 401 and IRA. Borrower will be required to fill out a Declaration of Assets form and provide recent bank statements.

Credit Requirements: All borrowers must have a **MINIMUM CREDIT SCORE OF 620**. Borrower needs to show mortgage approval for the purchase of the home. The purchase mortgage must be a fixed interest rate.

Loan Security: All loans will be secured with a mortgage in favor of the Minnetonka Economic Development Authority. Borrower will pay all applicable title and filing fees, which may be financed in the loan amount.

Borrower Fees: Borrower will be responsible for mortgage filing and service fees, flood certificate, credit report fees and any other applicable closing fees.

Underwriting Decision: Applicants must have acceptable credit history. CEE will approve or deny loans based on a credit report, income verification and other criteria as deemed necessary through CEE's underwriting guidelines. CEE's decision shall be final. Appeals can be made to the Authority.

Disbursement Process: Loan funds will be made payable and delivered to the title/closing agent. The down-payment and closing cost assistance deferred loan will be signed at closing of the purchase mortgage.

Minnetonka Pathways to Homeownership Down-Payment and Closing Cost Assistance Deferred Loan

Interest Rate: 0% fixed

Amortization Type: Deferred

Loan Amount: Maximum loan amount of \$75,000. The homebuyer(s) must contribute at least \$1,000 towards the down-payment or closing costs.

- Up to 10% of the purchase price for household income up to 120% AMI
- Up to 15% of the purchase price for household income up to 80% AMI
- Up to 20% of the purchase price for household income up to 60% AMI
- Up to 25% of the purchase price for household income up to 50% AMI

***Income shall be the projected gross income for the upcoming 12 months or the average of the prior two years tax returns if self-employed

Total Project Cost: It is the borrower's responsibility to obtain the amount of funds necessary to purchase the property in accordance with the first mortgage guidelines.

Loan term: Deferred for a period of 30 years or when the borrower sells, transfers title or if the home is no longer the primary residence of the original borrower the entire balance is due and payable. The loan may also become due and payable upon refinance. The loan principal and interest is 100% forgiven if the property has not been sold, transferred and has remained the primary residence of the borrower after 30 years from loan closing.

Eligible Properties: Single-family owner-occupied properties located within the geographical boundaries of the City of Minnetonka. Townhomes and Condominiums are eligible. The maximum homebuyer deferred loan amount will be based on the household's income and the purchase price of the home up to the 12-month median home sale price in Minnetonka, \$450,000 (2022). Properties within the West Hennepin Affordable Land Trust.

Ineligible Properties: Dwellings with more than one unit, cooperatives, manufactured homes, Properties held within a trust.

Eligible Borrowers: Must NOT have owned a home within the past 7 years. The homebuyer(s) **MUST** attend a Home Stretch workshop or any other HUD approved program and provide evidence prior to closing. All borrowers must be legal residents of the United States, as evidenced by a social security number, including U.S. Citizens, Permanent Resident Aliens, and Non-Permanent Resident Aliens. TAX IDENTIFICATION NUMBERS (ITIN) ARE NOT ACCEPTABLE.

Ineligible Borrowers: Including but not limited to: - Foreign Nationals, and Non-Occupant Co-Borrowers.

Ownership/Occupancy: Must occupy the home as the primary residence.

Loan to Value Ratio N/A

Income Limit: The total gross annual household income cannot exceed 120% of the area median income based on household size. The income limits shall be determined by the U.S. Department of Housing and Urban Development (HUD), and is adjusted annually. Income shall be the projected gross income for the upcoming 12 months or the average of the prior two years tax returns if self-employed.

Documentation Requirements:

- Copy of purchase agreement
- Commitment letter/approval for first mortgage
- Copy of Title Commitment
- Copy of Initial Loan Estimate for first mortgage
- Value of home (property tax or appraisal)
- Certification of Home Stretch Homebuyers course completed

Asset Limit: Borrower may not own a second property. The maximum assets of the borrower shall not exceed \$25,000 (cash on hand, checking and savings) and a maximum of \$250,000 in retirement accounts such as 401 and IRA. Borrower will be required to fill out a Declaration of Assets form and provide recent bank statements.

Credit Requirements: All borrowers must have a **MINIMUM CREDIT SCORE OF 620**. Borrower needs to show mortgage approval for the purchase of the home. The purchase mortgage must be a fixed interest rate.

Loan Security: All loans will be secured with a mortgage in favor of the Minnetonka Economic Development Authority. Borrower will pay all applicable title and filing fees, which may be financed in the loan amount.

Borrower Fees: Borrower will be responsible for mortgage filing and service fees, flood certificate, credit report fees and any other applicable closing fees.

Underwriting Decision: Applicants must have acceptable credit history. CEE will approve or deny loans based on a credit report, income verification and other criteria as deemed necessary through CEE's underwriting guidelines. CEE's decision shall be final. Appeals can be made to the Authority.

Disbursement Process: Loan funds will be made payable and delivered to the title/closing agent. The down-payment and closing cost assistance deferred loan will be signed at closing of the purchase mortgage.

Pathways vs. HWR Program vs. Welcome to Minnetonka

Pathways to Homeownership (New Proposed Program)	Homes Within Reach	Welcome to Minnetonka DPA (Current Program)	Welcome to Minnetonka (Expanded Program)
Assistance Provided: - Up to \$75,000 - Cannot own a home in the past 7 years.	Assistance Provided Per Unit*: Land: \$103,897 Rehab: \$39,567 City Contribution: \$53,990 (1/3 of total costs to acquire/rehab) – *Can access mtka down-payment assistance.	Assistance Provided: Up to \$15,000 Average: \$8,550 - First time homebuyer	Assistance Provided: Up to \$50,000 - Does not need to be a first-time homebuyer.
Income Ratio: No higher than 30% of income	Income Ratio: No higher than 25% of income	Income Ratio: N/A	Income Ratio: : No higher than 30% of income
Borrower Contribution Required: \$1,000	Borrower Contribution Required: \$1,000	Borrower Contribution Required: \$3,000	User Paid Costs Required: 25% of the total down-payment or closing costs.
Interest Rate: 0% fixed interest (deferred), repaid of sold or not owner occupied before 30 years.	N/A – Borrow must obtain a first mortgage.	Interest Rate: 1% fixed interest (deferred), repaid of sold or not owner occupied before 30 years.	Interest Rate: 1% fixed interest (deferred), repaid of sold or not owner occupied before 30 years
Income Limit: 120% AMI or \$141,840	Income Limit 80% AMI Actual Served: \$41,544 or 56% AMI	Income Limit: 120% AMI or \$141,840 Actual Served: \$59,290 or 52% AMI	Income Limit: 120% AMI or \$141,840
Owner Equity: 100% after loan repayment	Owner Equity: May capture up to 35% of equity upon sale.	Owner Equity: 100% after payoff of assistance after 30 year deferral/interest	Owner Equity: 100% after payoff of assistance after 30 year deferral/interest.
Ongoing Affordability: None	Ongoing Affordability: 99 year covenant requiring sale to income qualified buyers	Ongoing Affordability: None	Ongoing Affordability: None
Max Mortgage Amount: \$450,000	Average Sale Price: \$148,333 (Home Only)	Max Sale Price: \$372,600 Average Sale Price: \$212,153	Max Mortgage Amount: \$450,000
Additional Requirements: Attend Home Stretch Workshop, City offering Energy Audit	Additional Requirements: Must Attend Homeownership Counseling Course, Ongoing homeownership support.	Additional Requirements: Must Attend Home Stretch Workshop	Additional Requirements: Attend Home Stretch Workshop, City offering Energy Audit

**EDAC Subcommittee Agenda Item #3
Meeting of Oct. 8, 2021**

Brief Description Affordable Housing Program Discussion

Recommendation Review and provide feedback

Background

During a previous budget study session held on [Aug. 16, 2021](#) and prior to the adoption of the Economic Improvement Program on [Sept. 13, 2021](#), council requested staff to review additional opportunities for owner occupied affordable housing programs. Specifically, the new First Generation Wealth Building Homeownership Program developed by Saint Louis Park.

The Saint Louis Park program operates similar to the Welcome to Minnetonka Program. The primary difference is the amount of assistance provided under the Saint Louis Park program and the forgiveness of the assistance, aimed at building wealth. The program details are summarized below.

Down Payment Assistance Programs

Minnetonka down-payment Assistance Program	Saint Louis Park - Proposed Wealth Building Program
Name: Welcome To Minnetonka	Name: Generational Wealth Building Program
Source: HRA Levy (\$940,000 committed to down-payment and rehab loans) - \$438,000 balance remaining for programs.	Proposed Source: Pooled TIF (\$300,000 initial contribution)
Proposed Terms: Maximum Amount: \$15,000 Terms: <ul style="list-style-type: none"> • 1% interest, 30 year deferred loan (no payments) – due if refinanced or sold prior to 30 years. Forgiven if in home for 30 years. • Prior to 2018 – 10 year loans with 3% interest (payments required) • Borrower must contribute 25% of total down-payment or closing costs • Assets cannot exceed \$25,000 	Proposed Terms: Maximum Amount: Up to \$75,000 based upon purchase price. Terms: <ul style="list-style-type: none"> • 0% interest, forgiven at 5% each year, remaining prorated balance must be repaid if sold or not owner occupied before 20 years • Borrower must contribute \$1,000 in down- payment or closing costs • Assets cannot exceed \$15,000
Eligibility: First Time Homebuyer, Up to 120% AMI	Eligibility: First Generation Buyer (buyer or parents cannot have previously owned property), <ul style="list-style-type: none"> • Up to 80% AMI, Minimum of 25% of income provided by buyer • Must sign affidavit
Max. Home Price: MHFA First time buyer max \$352,300	Max. Home Price: MHFA First time buyer max \$352,300

Underwriting Costs: <ul style="list-style-type: none">• \$750 per loan closed• \$2,500 annual fee	Underwriting Costs: <ul style="list-style-type: none">• \$350 per loan application and \$700 per loan closed• One-time setup fee of \$1,000• Annual admin fee to CEE
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Saint Louis Park Assistance Model

The Saint Louis Park Assistance model contemplates contributing a higher amount of assistance for lower income households supporting households at the 50% AMI, 60% AMI and 80% AMI income levels. The model requires the homeowner to contribute a minimum of 25% of their gross income to PITI, then the down-payment assistance is based upon the remaining amount required to ensure affordability.

- The maximum homebuyer deferred loan amount will be based on the household's income and the purchase price of the home up to the MHFA first time homebuyer purchase price regardless of household size. All homebuyers are required to spend a minimum of 25% of their gross income as defined below for principal, interest, taxes and insurance (PITI) and homeowner HOA fees if applicable. The maximum deferred loan provided will be as follows:
 - Households with incomes at or below 50% AMI: 25% of the purchase price up to the MHFA first time homebuyer limit regardless of household size, not to exceed \$75,000.
 - Households with incomes between 51% and 60% AMI: 20% of the purchase price up to the MHFA first time home buyer limit regardless of household size
 - Households with incomes between 61% and 80% AMI: 15% of the purchase price up to the MHFA first time homebuyer limit regardless of household size.

Assistance based on purchase price

Purchase price	15% assistance 80% AMI	Balance	20% assistance 60% AMI	Balance	25% assistance 50% AMI	Balance
\$200,000	\$30,000	\$170,000	\$40,000	\$160,000	\$50,000	\$150,000
\$250,000	\$37,500	\$212,500	\$50,000	\$200,000	\$62,500	\$187,500
\$285,000	\$42,750	\$242,250	\$57,000	\$228,000	\$71,250	\$213,750
\$300,000	\$45,000	\$255,000	\$60,000	\$240,000	\$75,000	\$225,000
\$340,000	\$51,000	\$289,000	\$68,000	\$272,000		
\$345,000	\$51,750	\$293,250	\$69,000	\$276,000		
\$352,300	\$52,845	\$299,455	\$70,460	\$281,840		

MHFA First time home buyer purchase price maximum = \$352,300.

Met council affordable home price:

80% AMI \$293,500: purchase price, less city assistance at 15%, affordable up to \$345,000

60% AMI \$228,500: purchase price, less city assistance at 20%, affordable up to \$285,000

50% AMI \$187,500: purchase price, less city assistance at 25%, affordable up to \$250,000

Financing Considerations

Historically, the city has routinely funded both the Welcome to Minnetonka program and the Homes Within Reach Program through the HRA levy as opportunities to promote affordable home ownership. During budget discussions this year, the council expressed interest in exploring other opportunities, such as the St. Louis Park wealth building program. For 2022, the council approved a preliminary HRA levy of \$325,000. The portion of the levy set aside for Homes Within Reach or an alternative affordable housing priority was \$125,000 and the Welcome to Minnetonka and Minnetonka Programs are recommended to receive \$100,000. The city also received ARPA funds and set aside \$375,000 for affordable housing priorities. The city also has access to the pooled TIF that has been placed in the Affordable Housing Trust Fund.

Supporting Information:

Minnetonka

- Median home sale price in 2020 was \$399,000, 2021 projections are at \$450,000 for median sale price.
- Currently 24 properties in Minnetonka available under the first time homebuyer maximum purchase prices of \$352,300 established by MHFA. Two are single-family homes and the remaining are townhomes or condos.

Homes Within Reach

- Average purchase price of the last 5 properties purchased by Homes Within Reach was \$294,580
- Average city assistance provided on last 5 properties purchased by Homes Within Reach was \$93,787

- Average rehabilitation costs for each property is \$40,000.

Welcome to Minnetonka Program

- Average purchase price of the last 5 properties was \$167,326
 - 4 condo or townhomes properties/1 single family property
- Average assistance provided was \$9,591

General Observations

- The median sales price for homes in Minnetonka is significantly higher than St. Louis Park (\$450,000 vs. \$341,000).
 - Minnetonka could consider raising the income limit to 120% AMI with 10% down-payment assistance to expand the pool of eligible applicants.
 - A household of 4 could make up to \$124,344 under this scenario.
 - Minnetonka could adjust maximum purchase price to median home value to support single-family home ownership.
- The Homes Within Reach Program provides basic repairs and improvements to promote stable homeownership. The down-payment assistance programs do not have a mechanism to repair the homes (outside of applying for a separate loan for repairs).
- In 2019, the DPA program was modified to allow for assistance with purchasing a home within the HWR program.
- If the goal of the program is to support first generation BIPOC homeownership, staff would research opportunities to reach organizations that focus on this issue.
- Each program supports different goals and could be packaged as a portfolio of homeownership options:
 - Welcome to Minnetonka – supports homeownership for first time buyers.
 - Homes Within Reach – supports long-term homeownership (with 99 year covenant) and stabilizes housing stock. Can build wealth through retained equity on home.
 - Wealth Building Program – supports first generation homeowners that traditionally could not afford to purchase a home in Minnetonka. Includes a mechanism to forgive the balance of assistance over time.

Next Steps

- Oct. 21, 2021 – EDAC Meeting
- November 15– Second City Council Budget Discussion
- December 6 – Final City Council Budget Discussion

Discussion Questions

- ***Should the EDAC consider adding a new wealth building down-payment assistance program and/or modify the current down-payment program?***
- ***What additional information is needed to present to EDAC?***

Recommendation

Provided feedback.

Submitted through:

Julie Wischnack, AICP, Community Development Director

Originated by:

Alisha Gray, EDFP, Economic Development and Housing Manager

Additional Information

Welcome to Minnetonka Guidelines

Saint Louis Park Draft Guidelines

- [Link to Saint Louis Park city council study session](#)

[Sept. 13, 2021 City Council – EIP Adopted](#)

City of St. Louis Park

First Generation Wealth Building Homeownership Program

Program summary

Issue: It is recognized that historical and institutional racism has disproportionately created housing challenges and disparities for Black communities, as well as members of communities who did not identify as white, and other underserved low-income communities. Black/African American people and households have historically been prohibited from purchasing and owning a home due to redlining, block busting, racially restrictive covenants and decimation of Black neighborhoods for “public purposes” such as freeways. Additionally, the income and education gap between households of color and white households has resulted in difficulty for Black and African American people and households of color to obtain a mortgage and subsequent on-going housing stability issues. Due to this income gap and other social injustices, many households of color have poor credit or no credit, making it even harder to get a mortgage or to get a mortgage with a favorable interest rate. This program is designed to address these historic injustices and inequities, to facilitate affordable homeownership and to provide a means for wealth-building.

What: The city has designed a homeownership program designed to address these historic injustices and inequities, to facilitate affordable homeownership and to provide a means for wealth-building.

The goal is to address housing disparities; build power in communities most impacted by housing challenges and disparities; pilot an innovative program to address housing challenge for Black communities as well as members of communities who do not identify as white, and other low-income communities; and support inclusive and equitable communities.

2. Eligible Borrower:

First generation buyer – buyer(s) and parents of buyer(s) cannot have previously owned a home.

- Borrower does not currently own a home or has not previously owned a home
- Borrower parents and/or legal guardian does not currently own a home, nor have they previously owned a home
- Borrower spouse, if applicable, does not currently own a home and has not previously owned a home
- Borrower spouse’s parents and/or legal guardian does not currently own a home, nor have they previously owned a home
- Borrower(s) must sign the First Generation Homebuyer Affidavit
- Must occupy this property as their primary residence.
- Must be a legal resident.

- The borrower's maximum household income cannot exceed 80% of the area median income (AMI) based on a family size of four for households of 1-4. Income limits will be increased based on family size for families with more than four members. Income is calculated using paystubs W2's, if self-employed two years tax returns, and any other documentation needed to verify projected gross income. The income of the following persons must be verified and included when calculating income:
 - Anyone who will have title to the subject property and signs the Mortgage Deed.
 - The legal spouse of the mortgagor who will also reside in the subject property.
 - Multi-generational buyers are allowed. Income used for mortgage eligibility; would also be included to determining income eligibility for SLP program.
- Credit score of 620+ for all borrowers
- No outstanding liens and judgements.
- Maximum liquid assets \$15,000 following closing on home, does not include retirement assets or noncash assets (i.e. cars, jewelry, vehicles, etc.)

Eligible Properties:

A single family (including a townhome or condominium) or duplex property located within the city limits of St Louis Park

- There is no maximum purchase price.
- Owner occupied dwellings only. The homebuyer must homestead and occupy the home within 60 days following the home purchase closing.

Loan Terms:

- The loan has a zero percent interest rate (0% APR).
- There are no monthly payments.
- The loan is forgiven at a prorated rate (5% per year) over a twenty-year owner occupancy period. If the homeowner ceases to occupy the home as a primary residence during the twenty-year owner occupancy period, the remaining balance of the loan must be repaid.
- The mortgage may be subordinated as part of a refinance of the primary loan.
- Borrower must contribute at least \$1,000 to down payment or closing costs to purchase home

Loan Amount:

- The maximum homebuyer deferred loan amount will be based on the household's income and the purchase price of the home up to the MHFA first time homebuyer purchase price regardless of household size.. The maximum deferred loan provided will be as follows:
 - Households with incomes at or below 50% AMI: 25% of the purchase price up to, not to exceed \$75,000.
 - Households with incomes between 51% and 60% AMI: 20% of the purchase price, not to exceed \$60,000.
 - Households with incomes between 61% and 80% AMI: 15% of the purchase price, not to exceed \$45,000.

- This program may not be layered with Down Payment Assistance Program for First Time Homebuyers from the City of St. Louis Park.

Use of Funds:

- Down payment costs and closing costs as needed per the restrictions listed above.

Required Homebuyer Financial and Homeownership Counseling and Education:

Homebuyers must complete homeownership HomeStretch™ (sponsored by the Minnesota Homeownership Center, 651-659-9336 or www.hocmn.org), Framework® (online homebuyer education available at www.hocmn.org), or the Minneapolis Urban League American Dream Program or another designated program approved by the city.

- Financial wellness counseling through a designated service provider approved by the city. Buyers must have attended at least one financial counseling session before loan approval. prior to loan closing.
- Certificates for homeownership education or counseling older than two years will not be accepted.
- Must complete training before funds are reserved.
- The city will reimburse buyers for any approved educational program costs following the closing.

Eligible Primary Financing:

- This loan must be a fixed interest rate.

Loan Security:

- The loan funds will be separately secured by a Promissory Note and Mortgage.
- The loan may be secured in a subordinate lien position behind other lender resources.

Application and reservation of funds:

- Must complete homeownership counseling program before loan approval .
- Must have attended at least one financial counseling session before loan approval.
- Upon determination of approved eligibility applicant must submit confirmation of preapproval for a first mortgage at which time funds will be reserved.
- Funds will be reserved for 90 days and will be extended to accommodate a scheduled closing provided a purchase agreement is in place.
- One 60-day extension will be granted if applicant is actively searching for a home.
- Another extension will be considered if no other applicants have applied and are waiting for a loan reservation.
- If funds are not available due to prior reservations, eligible homebuyers may be placed on a waiting list. A maximum of 10 people will be placed on the waiting list. Applicants will be contacted in the order they are placed on the waiting list.

Home energy squad visit

- The city will pay for a Home Energy Squad Visit to be completed within the first year following purchase.

Disbursement of Funds

- Funds will be disbursed to the Closing Agent, for the benefit of the Borrower and in coordination with the purchase loan closing.

Borrower Fees

- All applicable mortgage filing fees, wire transfer fees, title work, credit report, flood and any other applicable closing costs associated with the loan

City Origination Fees

- \$1,050 per loan closed/executed
- One Time Set-Up Fee of \$1,000
- Annual Administration Fee shall be included as listed in Exhibit A-21a



**Economic Development Authority
Agenda Item 5A
Meeting of Oct. 3, 2022**

Title: Commercial Code Compliance Loan Program for Minnetonka Businesses

Report From: Rob Hanson, Economic Development Coordinator

Submitted through: Mike Funk, Executive Director
Julie Wischnack, AICP, Community Development Director
Darin Nelson, Assistant Treasurer

Action Requested: Motion Informational Public Hearing
Form of Action: Resolution Ordinance Contract/Agreement Other N/A
Votes needed: 4 votes 5 votes N/A Other

Summary Statement

This action proposes a financing program for businesses to address safety or other building code-related issues.

Recommended Action

Adopt the resolution establishing the Commercial Code Compliance Loan Program

Strategic Profile Relatability

Financial Strength & Operational Excellence Safe & Healthy Community
Sustainability & Natural Resources Livable & Well-Planned Development
Infrastructure & Asset Management Community Inclusiveness
N/A

Statement: This program would provide resources to businesses that would enable them to make code and safety-related improvements to their buildings.

Financial Consideration

Is there a financial consideration? No Yes \$100,000 indirect ARPA
Financing sources: Budgeted Budget Modification New Revenue
Source
Use of Reserves Other [Enter]

Statement: The funding source for the proposed Commercial Code Compliance Loan Program is \$100,000 of indirect ARPA funding, as recommended in the 2023-2027 EIP.

Background

At the EDAC meeting on [March 10, 2022](#), staff presented the Business Development Strategy Work Plan, which outlined programmatic ideas for consideration to address issues identified in the 2021 business survey. Businesses indicated that loans and financing support were among the most critical potential future services that the city could provide. Additionally, the 2023-2027 Economic Improvement Program identified \$100,000 in indirect American Rescue Plan Act (ARPA) funds for creating a pilot Commercial Code Compliance Loan program.

Proposed Commercial Code Compliance Loan Program

Staff developed guidelines for implementing the Commercial Code Compliance Loan Program with an initial pool of \$100,000. Approximately four businesses could receive a loan of up to \$25,000 to address building issues such as improving safety, structural integrity, accessibility issues, or any other areas of concern as determined by the City of Minnetonka's Building Official, Fire Marshall, or Public Health Division.

The program includes a 2% fixed interest rate. Loans would be repaid in monthly installments over five years for loans less than \$15,000 and 10 years for loans between \$15,000 and \$25,000. The attached program guidelines describe other credit and underwriting requirements more fully.

Eligible businesses:

- Be located within the City of Minnetonka or in the process of securing a location within the city. That address must be a commercial address.
- Borrowers may be the property owner or tenant.
- Be a locally owned and operated business (including independently owned and operated franchises)
- Be a for-profit business.
- In compliance with city ordinances, codes, licensing, and must not have any delinquent taxes or other charges due to the city.
- Be a legal entity registered with the Minnesota Secretary of State, and be in good standing.

Eligible Improvements

Repairs may improve safety, structural integrity, accessibility issues, or other areas of concern as determined by city building officials, fire officials, or the public health division. Examples of eligible projects include (but are not limited to):

- Exterior painting
- Window and door replacement
- Fire suppression or other related issues as requested by the City Fire Marshall
- Building and health code-related items
- Accessibility improvements or ADA code compliance
- Other improvements are described in the attached guidelines.

Program Administration

Staff is proposing that the Center for Energy and Environment (CEE) administer the program on behalf of the city. CEE also administers the down-payment loan and home rehabilitation loan programs.

EDAC Feedback from [July 14, 2022](#), and [September 8, 2022](#) meetings:

- The commissioners viewed the program favorably. Feedback focused on edits to the eligibility guidelines. The feedback from the meeting is summarized below.
 - Commissioner Tyacke recommended the inclusion of a "due on sale" provision in the guidelines to address the scenario if an owner sold the business with an outstanding loan.
 - Staff adjusted the guidelines to include the provision.
 - Commissioner Jacobsohn suggested altering the term of the loans to five years instead of 15 years to allow funds to be repaid sooner.
 - Staff revised the guidelines to include a sliding scale based on the total amount borrowed. For loans under \$15,000, the repayment period is five years; for loans between \$15,000 and \$25,000, the repayment period is ten years.
 - Multiple commissioners stated that they felt that if a business was legally licensed to operate within Minnetonka, it should be eligible to receive a loan through this program. The guidelines initially recommended not allowing businesses that sell alcohol, cigarettes, CBD or THC products, etc., to be ineligible.
 - Staff altered the guidelines to state that any licensed or legally permitted business within Minnetonka would be eligible regardless of their product line.
 - Commissioner Johnston asked for clarification in the guidelines if a 50% guarantee covers 100% of the loan.
 - Staff confirmed that 50% ownership of the business would guarantee 100% of the loan.

Attachments

Fifth Amendment to Loan Origination Agreement
Minnetonka Commercial Code Compliance Guidelines
Program Budget

FIFTH AMENDMENT to the LOAN ORIGINATION AGREEMENT
Between
ECONOMIC DEVELOPMENT AUTHORITY IN AND FOR THE CITY OF MINNETONKA
And
CENTER FOR ENERGY AND ENVIRONMENT

(Minnetonka Home Improvement Loan Program, Pathways to Homeownership Program, and Code Compliance Program)

The Agreement made the 1st day of January, 2018 by and between the ECONOMIC DEVELOPMENT AUTHORITY IN AND FOR THE CITY OF MINNETONKA, with offices at 14600 Minnetonka Blvd, Minnetonka, MN 55345, (the "Authority"), and CENTER FOR ENERGY AND ENVIRONMENT, with its offices at 212 3rd Avenue North, Suite 560, Minneapolis, Minnesota 55401 ("CEE") is hereby amended.

Effective November 1, 2022 EXHIBIT A5 shall replace EXHIBIT A4 and EXHIBIT B5 shall replace EXHIBIT B4.

Section 5. Term and Termination

5.1 Unless earlier terminated as provided in the following paragraphs, this Agreement shall become effective on November 1, 2022 and continue through December 31, 2025.

All other sections of the contract and fees shall remain as written in the original agreement.

IN WITNESS WHEREOF, the parties hereunder set their hands as of the date written below:

ECONOMIC AND DEVELOPMENT
AUTHORITY IN AND FOR THE CITY
OF MINNETONKA

CENTER FOR ENERGY AND
ENVIRONMENT

By _____
Executive Director

By _____

Date _____

Date _____
#

By _____

TAX ID 41-1647799

Date _____

EXHIBIT A5

PROGRAM GUIDELINES

This document includes guidelines for the
COMMERCIAL CODE COMPLIANCE LOAN PROGRAM

MINNETONKA LOAN PROGRAM GUIDELINES

The Economic Development Authority in and for the City of Minnetonka (Authority) is making funds available for homeowners to assist with home maintenance and energy improvements, as well as down payment and closing cost assistance for first-time homebuyers. The Minnetonka Home Improvement Loan Program is designed to supplement existing loan programs available from MHFA, CEE, private lenders and other housing resources. Center for Energy and Environment shall serve as the administrator for the Minnetonka Loan Programs and will secure the most beneficial financing based on the borrower's needs independent of the funding source.

Minnetonka Commercial Code Correction Loan Program

Interest Rate	2%
Loan Amount	Up to \$25,000
Program Match	Borrowers must match at least 10% of the total project costs
Income Limit	None
Term	Up to 5 years for loans less than \$15,000 Up to 10 years for loans \$15,000 to \$25,000
Eligible Properties	Commercial properties located in the City of Minnetonka. Mixed use properties are eligible, but the loan funds can only be used for improvements to the area used for commercial purposes.
Ineligible Properties	Residential only properties
Eligible Borrowers	Owners or tenants of the subject property. Borrowers must be legal residents of the United States or a registered business with the Minnesota Secretary of State. If the borrower is the tenant there must be a valid lease agreement and receive written authorization for the repairs or improvements to be made.
Ineligible Borrowers	Business entities not registered with the MN Secretary of State, a C-Corporation or a Non-Profit Corporation.
Loan-to-Value-Ratio	N/A

Debt- to-Income Ratio N/A

Multiple Loans per Property/Borrower

Applicants may receive multiple loans, but the combined outstanding balance and new loan cannot exceed the maximum loan amount of the program.

Eligible Improvements

Repairs may improve safety, structural integrity, address accessibility issues or address any other areas of concern as determined by a City of Minnetonka Building Official. Examples of eligible projects include, but are not limited to:

- Exterior painting
- Screening elements (i.e. fencing, visible mechanical screening, visible trash enclosures)
- Window and door repair or replacement
- Signage connected to the building
- Fire suppression or other related issue as requested by the City Fire Marshall
- Exterior Lighting
- Building and health code related items
- ANSI/NSF approved equipment upgrades with approval from a City of Minnetonka Building Official
- Parking lot improvements
- Improving exterior or architectural barriers that restrict the mobility and accessibility of elderly or disabled persons to a premises
- Installation of exterior security devices
- Landscaping Improvements
- Improvements not on this list, but are required for correction per City staff can be considered eligible for this program on a case by case basis

Ineligible Improvements

Work initiated prior to the loan being approved and closed, unless due to an emergency. Any improvement not meeting the definition of an eligible improvement. CEE will refer to the City whenever eligibility of an improvement project is in question.

Bidding

A minimum of 1 bid for each project/contractor. All contractors must be properly licensed with the Minnesota Department of Labor (if applicable) and the City of Minnetonka (if applicable). Permits must be obtained when required by City ordinance.

The City of Minnetonka will only issue mechanical permits to contractors licensed by the City of Minnetonka: Gas, Warm Air, Refrigeration and Steam/Hot Water

Sweat Equity

Work may be performed by loan recipient or owners on a “sweat equity” basis. Loan funds may be used for purchase of materials. Loan funds cannot be used to rent tools or equipment or compensate for labor.

Post Installation Inspection	Properties are subject to a post installation inspection by CEE when a permit is not required. When a permit is required, the work must be signed-off by a City inspector prior to release of funds.
Loan Security	None, all loans are personally guaranteed. The personal guarantors must have at least 50% ownership in the business.
Personal Guarantee	All loans must be personally guaranteed by at least 50% of the business ownership.
Underwriting/Credit	All personal guarantors must have at least a 620 credit score.
Work Completion	Weather permitting, all work must be completed within 120 days of loan closing. Extensions may be granted by CEE.
Custody of Funds	Loan funds will remain in the custody of CEE until payment for completed work.

Disbursement Process:

- a. Payment to the contractor (or owner) will be made after completion of the work. An inspection will be performed by the City and/or the CEE representative to verify the completion of the work.
- b. The following items must be received before the funds can be released:
 - 1) Final Invoice from each contractor showing all amounts paid and due.
 - 2) Lien Waiver(s).
 - 3) Material Receipts for sweat equity projects.
 - 4) Completion Certificate signed by each contractor and the borrower.
 - 5) Verification of any Permits closed.
- c. Payment checks may take up to 10 business days after the above items are received to prepare. A maximum of three draws will be allowed per loan. Payments will only be made for work completed and approved.

Borrower Fees There will be a 1% Origination Fee, Document Preparation Fee, Business and Personal Credit Report Fee and any other applicable fees related to the loan.

Due On Sale The full balance of the loan may be called upon sale or transfer of ownership of the business used to secure this loan.

General Program Conditions for Commercial Code Compliance Program

Application Processing: Loans will be distributed on a first come first serve basis as borrowers qualify. **Applicants must provide a completed application package including the following in order to be considered for funding.**

- Completed and signed application form
- Proof of income and assets
- Proof of Identity (driver's license, passport, etc.)
- Bids or estimates for proposed projects (if applicable)
- Other miscellaneous documents that may be required.

Contractors/Permits: Contractors must be properly licensed. Permits must be obtained when required by city ordinance.

Program Costs: Loan set up and loan origination fees will be paid out of the Program Budget. Loan program marketing efforts will be billed directly to the Authority and is a separate expense should the city choose to commission CEE for marketing support. Borrowers will pay all mortgage filing fees and related closing costs.

Total Project Cost: It is the borrower's responsibility to obtain the amount of funds necessary to finance the entire cost of the work. In the event the final cost exceeds the original loan amount, the borrower must obtain the additional funds and show verification of the additional funds in order to be approved for the loan.

Disbursement Process for the Revolving Loan Program: Payment to the contractor (or owner in sweat equity situations) will be made upon completion of work. An inspection will be performed by a City Inspector and/or CEE to verify the completion of the work. The following items must be received prior to final disbursement of funds for the Revolving Loan Program:

- Final invoice or proposal from contractor (or materials list from supplier);
- Final inspection verification by a City Inspector;
- Completion certificate(s) signed by borrower and contractor;
- Lien waiver for entire cost of work;
- Evidence of city permit (if required)

EXHIBIT B5

TOTAL PROGRAM BUDGET \$500,000

MINNETONKA LOAN PROGRAM BUDGET

A. Loan Program Budget Allocation (includes Loan Set Up Fee and Loan Origination Fee and Annual Administration Fee):

- \$300,000 – Pathways to Homeownership
- \$100,000 – Code Compliance Program
- \$100,000 Welcome to Minnetonka and Minnetonka Home Enhancement
(Pending HRA levy approval in December 2022)

Budget Notes:

1. CEE shall submit monthly invoices for origination fees and the principal loan amounts of closed loans for that period.
2. Services performed by CEE will initially be funded from the Total Program Budget as stated above and paid in accordance with the following schedule.

(1) Loan Origination Fee Home Improvement Loan:	\$750.00 per loan closed
(2) Loan Origination Fee Down-Payment and Closing Cost Assistance Deferred Loan and Pathways to Homeownership Down-Payment and Closing Cost Assistance Deferred Loan:	\$1,100 per loan closed
(3) Commercial Code Compliance Program	\$950 per loan closed
(3) Annual Administration Fee	\$5,000
(4) One Time Set Up Fee (Pathways and Code Compliance)	\$1,500

3. **Loan Servicing**
The Authority will contract directly with a servicing company.
4. **Marketing**
Marketing efforts will be supported by CEE, upon request, and marketing costs are not included in the administrative budget. Hourly rates are inclusive of all overhead expenses and will be charged only for hours directly related to the labor of all program marketing. CEE will also be reimbursed by the Authority for any non-labor, out-of-pocket expenses relating to these services on a dollar-for-dollar basis.

EDA Resolution No. 2022-_____

Resolution approving amendments to various loan programs and creating additional loan programs for residents of and businesses within the City of Minnetonka

Be it resolved by the Board of Commissioners (the “Board”) of the Economic Development Authority in and for the City of Minnetonka, Minnesota (the “Authority”) as follows:

Section 1. Background.

- 1.01. The Authority was created pursuant to Minnesota Statutes, Sections 469.090 through 469.1082, as amended, and was authorized to transact business and exercise its powers by a resolution adopted by the City Council of the City of Minnetonka, Minnesota (the “City”).
- 1.02. The Authority and the City have undertaken a program to promote economic development and job opportunities, promote the development and redevelopment of land which is underutilized within the City, and facilitate the development of affordable housing.
- 1.03. The Authority and the Center for Energy and Environment (“CEE”) have entered into a Loan Origination Agreement, dated as of January 1, 2018, as subsequently amended (the “Loan Origination Agreement”), with respect to the Authority’s various loan programs to help residents of and businesses within the City.
- 1.04. Under the Loan Origination Agreement, the Authority has created the Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program for homebuyers. The Authority has proposed to revise the existing guidelines for this program and provide up to \$50,000 in down-payment assistance and also use up to \$555,000 of the existing fund balance for the program and a contribution of \$100,000 in 2023 based on the special benefit tax levy to be considered by the City Council later this year. Revised guidelines for this program have been presented to the Board.
- 1.05. Under the Loan Origination Agreement, the Authority has created the Pathways to Homeownership Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program for homebuyers. The Authority has proposed to revise the existing guidelines which provide up to \$75,000 in down-payment assistance and also use up to \$300,000 in indirect American Rescue Plan Act of 2021 (“ARPA”) funds to fund the program. The Authority has proposed that the City transfer indirect ARPA funds from the City’s General Fund to the City’s Affordable Housing Trust Fund and that such funds then be transferred, as needed, to CCE, which will administer the program. Revised guidelines for this program have been presented to the Board.
- 1.06. Under the Loan Origination Agreement, the Authority has created the Commercial Code Correction Loan Program for commercial properties. The Authority has proposed to use up to \$100,000 in indirect ARPA funds to fund the program and to approve forms of the mortgage, promissory note, and guaranty for use in securing the repayment of such loans. The Authority has proposed

that the indirect ARPA funds be transferred from the City's General Fund to the Authority's Development Fund. Revised guidelines for this program and forms of security documents have been presented to the Board.

Section 2. Modifications to Existing Programs.

- 2.01. The revised guidelines for the Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program, the Pathways to Homeownership Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program, and the Commercial Code Correction Loan Program are hereby approved.
- 2.02. The sources of funding for the Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program, the Pathways to Homeownership Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program, and the Commercial Code Correction Loan Program described herein are hereby approved.
- 2.03. The forms of security documents for the Commercial Code Correction Loan Program are hereby approved.
- 2.04. The staff of the Authority are authorized to continue and/or commence, as applicable, providing loans to qualified homebuyers and businesses under the Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program, the Pathways to Homeownership Down-Payment Assistance and Closing Cost Assistance Deferred Loan Program, and the Commercial Code Correction Loan Program.

Section 3. Effective Date.

- 3.01. This resolution shall be effective as of approval.
Adopted by the Board of Commissioners of the Economic Development Authority in and for the City of Minnetonka, Minnesota, on Oct. 3, 2022.

Brad Wiersum, President

Attest:

Becky Koosman, Secretary

Action on this resolution:

Motion for adoption:

Seconded by:

Voted in favor of:

Voted against:

Abstained:

Absent:

Resolution adopted.

I hereby certify that the foregoing is a true and correct copy of a resolution adopted by the Board of Commissioners of the Economic Development Authority in and for the City of Minnetonka, Minnesota, at a meeting held on Oct. 3, 2022.

Becky Koosman, Secretary

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