

# Housing Rehabilitation Loan Programs In Minnesota

James D. Fitzsimmons

Julia A. Nutter

Kathleen A. Gilder

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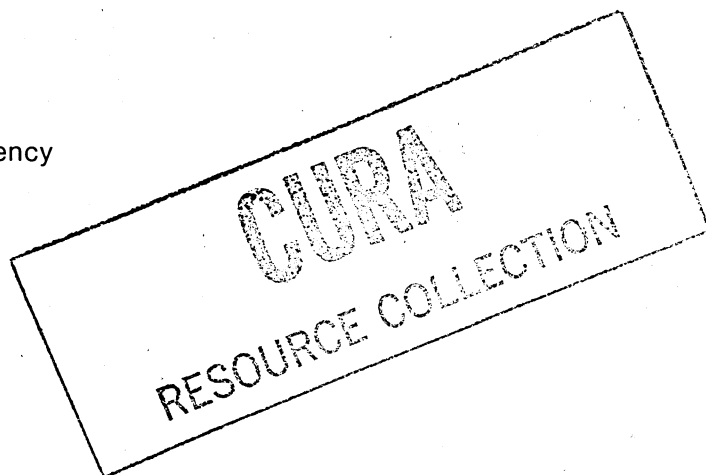
HOUSING (CURA)

# Housing Rehabilitation Loan Programs In Minnesota

The Minneapolis Housing Rehabilitation  
Loan and Grant Program  
James D. Fitzsimmons

The St. Paul Housing Rehabilitation  
Loan and Grant Program  
Julia A. Nutter

The Minnesota Housing Finance Agency  
Rehabilitation Loan Program  
Kathleen A. Gilder



Office for Planned Residential Development and Housing Research

Center for Urban and Regional Affairs

University of Minnesota

Minneapolis, Minnesota 55455

May, 1975

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It was Professor John S. Adams who first saw the need for these papers. We owe him thanks for his important guidance and intellectual stimulation.

James D. Fitzsimmons  
Kathleen A. Gilder  
Julia A. Nutter

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TABLE OF CONTENTS

|  |    |
|--|----|
| <u>Introduction: Housing Rehabilitation Loan Programs in Minnesota</u> . . . . . | 1  |
| John Adams, Associate Professor of Geography and Public Affairs                  |    |
| <br>   |    |
| The Minneapolis Housing Rehabilitation Loan and Grant Program . . . . .          | 3  |
| James D. Fitzsimmons   |    |
| <br>   |    |
| The St. Paul Housing Rehabilitation Loan and Grant Program . . . . .             | 33 |
| Julia A. Nutter  |    |
| <br>   |    |
| The Minnesota Housing Finance Agency Rehabilitation Loan Program . . . . .       | 57 |
| Kathleen A. Gilder   |    |

## Introduction

### Housing Rehabilitation Loan Programs in Minnesota

Many older houses in Minnesota have passed through a series of stages during their life times -- from construction, aging, and deterioration, to eventual abandonment, awaiting demolition. Some observers claim that new construction on one end of the housing stock, with deterioration, abandonment and demolition on the other, is the way we rid ourselves of obsolescent housing and raise the average quality of the housing stock. Up until now it has been cheaper and simpler to discard the old and build anew.

Others argue that current shortages of energy and materials will continue, and perhaps intensify. As the real prices of new construction skyrocket, they say, we can ill-afford to discard basically sound housing, rather we should maintain it and rehabilitate it.

Supporters of maintenance and rehabilitation additionally claim that the quality of a house and the outlook of its occupants depend in part on the physical quality of the neighborhood. A well-tended house and yard suffers if surrounded by neglected properties. The government should intervene to ensure neighborhood maintenance and rehabilitation, something that homeowners acting alone cannot do.

Property values do not increase significantly with home improvements, but they decline steadily without it. Lawmakers and many planners believe that if cash is available, people will make needed improvements on their houses.

Starting in 1974 the State of Minnesota and the Cities of Minneapolis and St. Paul began three new programs to assist mainly low and moderate income households in the physical maintenance and rehabilitation of their houses. The three papers presented here describe the programs. Each program responds to a different set of policy questions. Each one raises money in a different way, and uses a different set of operating procedures.

The first paper describes a city-wide low-interest loan and grant house rehabilitation program established in 1974 by the City of Minneapolis for low and moderate income people. A 1974 state law authorized the city to issue \$10 million in general obligation bonds to cover the costs of program administration, loan guarantees, and

subsidies to low income property owners. The bulk of the loan principal for housing rehabilitation under the program is coming from private financial institutions.

Another 1974 law authorized the City of St. Paul to issue \$3 million in general obligation bonds to start a rehabilitation loan grant program. The St. Paul program discussed in the second paper is scheduled to begin operation in the spring of 1975. The city plans to allocate 60 percent of its rehabilitation loan and grant money to Concentrated Rehabilitation Projects within six Priority Rehabilitation Areas.

The third paper describes the state's housing rehabilitation loan program developed and administered by the Minnesota Housing Finance Agency. The Agency developed its housing package jointly with St. Paul and Minneapolis. The 1974 rehabilitation loan and grant legislation authorized the Agency to sell \$100 million in tax exempt revenue bonds to make money available for low-interest home improvement loans. The paper was completed in February 1975. Several changes have been made to the MHFA program since then.

Whether the programs will accomplish their objectives is currently unknown. The authors of the three papers, members of the Department of Geography at the University of Minnesota, are currently developing methods for evaluating the Minneapolis program and similar programs elsewhere. Results of their evaluation will be presented in later reports of the Center for Urban and Regional Affairs, University of Minnesota.

John S. Adams  
Associate Professor of  
Geography and Public Affairs  
University of Minnesota

THE MINNEAPOLIS HOUSING REHABILITATION  
LOAN AND GRANT PROGRAM

James D. Fitzsimmons

Background

The federal government has been involved in housing rehabilitation since the 1930's. The Home Owners Loan Corporation was founded in 1933 chiefly to make loans so that people could retain their homes through the Great Depression, but loans were also made for home maintenance and modernization under that program. The Title I program of the National Housing Act (1934) enabled the Federal Housing Administration to insure rehabilitation loans from private lending institutions. These government efforts eased some families' housing problems during the hard times of the 1930's, although they were not part of any comprehensive attack on housing blight in America.<sup>1</sup>

The possibilities of housing rehabilitation were largely overlooked when it was later determined that the condition of America's housing stock required some strong and coordinated action. The massive federal urban renewal projects of the 1950's and 1960's stressed housing redevelopment as opposed to housing rehabilitation. Large areas of old structures in central cities were razed and new buildings put in those places. Unfortunately, the success record for large residential redevelopment schemes was dismal in many respects.

A consistent criticism of these redevelopment programs was that they destroyed viable communities when they eliminated deteriorated buildings. After failures such as the Pruitt-Igoe projects, some administrators decided that housing rehabilitation would be a cheaper, quicker, and less disruptive manner of upgrading housing stock. Government sponsorship of low-interest loans to nonprofit organizations for the purchase, rehabilitation, and sale of dwellings was one approach toward rehabilitation. This strategy, appealing on paper, was fraught with problems. Rehabilitation costs sometimes approached or even surpassed replacement costs because the technology of repair lagged behind that of building anew. Maintenance costs for rehabilitated buildings were often high. Occupant relocation problems persisted. Finally, housing prices usually rose when the costs of rehabilitation were passed on to consumers. The price increases forced some occupants from their neighborhoods and helped

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<sup>1</sup>McFarland, M. Carter and Vivrett, Walter K., eds., Housing Rehabilitation (Minnesota: University of Minnesota School of Architecture, 1965), p. 4.



destroy the communities that were being saved.

The combination of low-interest government loans and nonprofit corporations has had some success. At least in a short-term analysis, the Camden Housing Improvement Projects in Camden, New Jersey, appeared successful.<sup>2</sup> Occupant relocation was avoided in Camden by rehabilitating only vacant buildings. Prospective clients' credit histories were thoroughly checked. The Camden program was conspicuous for its concentration on housing; no attempts were made to spread resources over a comprehensive package of day care centers, minority hiring programs, or other social programs.

Another approach to rehabilitation used by the federal government was the provision of low-interest loans or grants directly to the property owner for housing rehabilitation. Most of these programs applied to property owners only in specified parts of cities, and they required full code compliance. The 115 (grants) and 312 (loans) programs are still in operation.

There have been problems with the 115 and 312 programs. Processing applications has been time consuming and, recently, federal funds were temporarily impounded. The future of these programs is unsure. Partially in response to the unclear future of the federal government in any type of housing rehabilitation, the City of Minneapolis established a city-wide, low-interest loan and grant house rehabilitation program for low and moderate income people in 1974.

A number of forces other than the federal money situation coincided to bring the Minneapolis program into existence. Although housing stock in Minneapolis compared favorably with that of other cities, the City Planning Department estimated that there were 27,000 houses in need of rehabilitation work and 7,500 houses that were beyond rehabilitation.<sup>3</sup> The Citizens League stressed the importance of maintaining the city's housing stock for the continued vitality of city neighborhoods, in its 1973 report, "Building Confidence in Older Neighborhoods."<sup>4</sup> This report highlighted the fact that a large percentage of Minneapolis homes were built prior to 1940 and would soon require rehabilitation work. City records indicate that housing quality is declining and the proportion of renters is on the upswing. Furthermore, a large segment of the housing stock is owned by the elderly and will be on the market in the near future.

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<sup>2</sup>Listokin, David, The Dynamics of Housing Rehabilitation (New Jersey: Center for Urban Policy Research, 1973).

<sup>3</sup>The Minneapolis City Planning Department made this estimate based on records from the City of Minneapolis Property Management System. The System makes use of files from the City Assessor, Inspector, and Public Works and Engineering.

<sup>4</sup>Citizens League, "Building Confidence in Older Neighborhoods," (Minneapolis, 1973).

Albert Hofstede's mayoral campaign was another force that emphasized the new interest in housing maintenance. General Mills and the Minneapolis Jaycees were considering housing rehabilitation efforts. An energy crisis provided some hope that with an attractive housing market, the city would be able to keep more of its residents and pull others in from the suburbs. The rising cost of construction and the inability of many to afford a new house lent further credibility to this hope. Polls showed that Minneapolis residents liked the city and planned to stay. A report from the Twin Cities Metropolitan Council lists the attractive features of older homes and city neighborhoods, the mixed character of city homes and incomes, and the need to make use of existing city investments as additional reasons for the renewed interest in Minneapolis housing.<sup>5</sup>

Newly elected Mayor Hofstede and City Council President Louis DeMars worked to bring a housing package to the city. In January 1974, the City of Minneapolis proposed a rehabilitation program to the Hennepin County Joint Legislative Delegation.<sup>6</sup> The proposed program was presented in a general form and the Delegation asked the city to present the program at a later time with some firm guidelines attached.<sup>7</sup> The city did attach guidelines specifying several qualifications for participation in the program, and the Delegation approved the proposal on January 29. Two months later, on March 27, Governor Wendell Anderson signed into law a loan and grant program for which the City of Minneapolis was authorized to issue \$10,000,000 in general obligation bonds.

The bill was not specific and permitted Minneapolis to establish most of the administrative regulations. Guidelines attached to the loan and grant legislation required the city to consider:

- . the availability of other government programs affordable by the client;
- . the availability and affordability of private market financing;
- . whether improvements are required by an urban renewal program or code enforcement program.

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<sup>5</sup>Metropolitan Council of the Twin Cities Area, "Housing Rehabilitation Handbook" (St. Paul, 1974).

<sup>6</sup>The Hennepin County Joint Legislative Delegation is a body of state legislators representing parts of Hennepin County. The Delegation reviews proposals concerning Minneapolis before they go to the capitol. Delegation approval of a city proposal usually guarantees passage in the state legislature.

<sup>7</sup>The Delegation thought that the lack of specific guidelines would leave the program open to abuse by the city. During discussion by the Delegation, Rolf Nelson, State Senator from Golden Valley said, "If we gave you this carte blanche authority, the City of Minneapolis could become the banker for a new IDS tower." Betty Wilson, "City-Loans Bill Laid Over." The Minneapolis Star, 19 January 1974, p. B12.

- . whether the improvements are required by court order; and
- . whether the property is insurable.

In addition, for rehabilitation grants the guidelines required that the type of dwelling unit be taken into account and that only people with low incomes be considered for eligibility. Because of the program's experimental nature, the grants were limited to not more than 5 percent of the dollar value of bonds outstanding for the loan and grant program.

While the bill was passing through channels on the state level, Mayor Hofstede reorganized the city's housing programs so that they would all be offered through the Minneapolis Housing and Redevelopment Authority (MHRA). The MHRA was also designated to develop plans for administration of the loan and grant program.

#### Development of the Minneapolis Program

The MHRA had previously organized a program of this sort. The federal government had once made the release of some federal monies to the MHRA conditional upon that local agency's ability to establish a low-interest loan house rehabilitation pilot program. The MHRA borrowed \$50,000 at 5 percent interest from the First National Bank of Minneapolis for that pilot program and used it to make loans to several families who had been unable to obtain 312 loans. Using money raised by a local tax levy, the MHRA was able to lower (subsidize) to 3 percent the loan interest rate charged to the families.<sup>8</sup>

The pilot program demonstrated the MHRA's ability to obtain low interest rates from banks. (A loan to the MHRA is considered a loan to the city for tax purposes. The banks, because of this tax benefit, can loan to the MHRA at a low interest rate and still make a profit.) The pilot program also showed the possibilities of combining private money for loan principal with public money to subsidize interest rates.

The development of the Minneapolis loan and grant program proceeded along the innovative lines set by the pilot program. After the loan and grant legislation was signed by Governor Anderson, the MHRA wrote a preliminary outline for the program. The outline was reviewed in the Mayor's office. A steering committee of community group leaders, private citizens, and public officials was then selected by the MHRA to help determine the final guidelines of the program.

City Hall and the MHRA were setting goals and arranging the finances for the first year's operation while the final guidelines were being

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<sup>8</sup>Snyder, Don, MHRA planner, interviewed at the MHRA office, 19 December 1974.

developed. Mayor Hofstede set a goal of approximately 2,000 houses rehabilitated each year from mid-1974 to mid-1977 through his comprehensive housing package. The loan and grant program is expected to be the major part of the Mayor's housing package which also includes an urban homesteading program, a home ownership program, and a spot renewal program.<sup>9</sup> Moreover, the urban homesteading program's success will probably be dependent upon the loan program because low- and moderate-income purchasers of urban homesteads will usually need low-interest loans. The MHRA therefore set a goal of 1,900 houses rehabilitated under the loan and grant program during the first year.

The MHRA planned that \$9.5 million would be available for the program's loan principal pool in 1974. The Minnesota Housing Finance Agency (MHFA) was expected to make \$5 million available and it was expected that five Minneapolis banks would lend \$4.5 million to the MHRA at 6 percent interest. At \$5,000 per loan, approximately 1,900 loans could be made from this money, based on \$2 million of bonds (for program operation and interest subsidies) being marketed by the city in 1974.<sup>10</sup>

The final guidelines were ready for presentation to the City Council on June 14, 1974. The City Council approved the guidelines on June 28 and the program started August 1.

#### Program Operation and Guidelines

The Minneapolis housing rehabilitation program is innovative. It is unique in its combination of private and public funds for an ongoing program; other rehabilitation programs have not used outside sources for loan principal. When the City Council approved the guidelines, it authorized the sale of \$2,050,000 of general obligation bonds and it decided that approximately \$1.7 million of bonds would be sold in early 1975. The breakdown of expenditures for the first \$2,050,000 is:

|                            |                    |
|----------------------------|--------------------|
| Loan principal             | \$1,300,000        |
| Administration costs       | 611,206            |
| Rehabilitation grants fund | 102,500            |
| Contingency fund           | 36,294             |
|                            | <u>\$2,050,000</u> |

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<sup>9</sup> Under the urban homesteading program, the city sells a house at less than fair market value given the assurance that the buyer will rehabilitate the house. The home ownership program is a program through which the city buys a house, rehabilitates it, and sells it. When houses are not economical to rehabilitate, they can be purchased, destroyed and the land sold under the spot renewal program.

<sup>10</sup> Whiting, Charles, "Loans to Update the City's Substandard Houses," The Minneapolis Star, 3 June 1974, p. A6.

The \$1,300,000 for loan principal was determined during negotiations with the banks before they committed their money. Administration costs include a \$14,350 fee for servicing the bonds and approximately \$5,000 for anticipated loan service charges by Twin City Federal. The \$102,500 limit for grants was set during negotiation with the Hennepin County Joint Legislative Delegation. A cash reserve account of \$132,000 (for defaults) will be made available from the second bond sale. As loans are repaid, the cash reserve account will be increased to a maximum of \$300,000.

The program went into operation with less money for loan principal than had been anticipated. The \$5 million from MHFA has not been received because that agency has been unable to sell its revenue bonds at the low-interest rate necessitated by Minnesota usury law. When the money is obtained from the MHFA, it will be available at a higher interest rate than that obtained from the banks and will be used for refinancing and for new loans made to the high-income bracket applicants.

The other important source of loan principal for the program was five Minneapolis banks.<sup>11</sup> Negotiations between the banks and the MHRA in June and July of 1974 resulted in an agreement whereby the banks would lend the MHRA \$2.50 for loan principal for each \$1.00 of bond money from the first bond sale that the MHRA designated as loan principal. The MHRA allotted \$1.3 million from its first bond sale for loan principal and the banks accordingly lent the MHRA \$3.3 million. The program therefore started with \$4.6 million that could be used as loan principal.<sup>12</sup> On the assumption that the same ratio of bond money used as principal to the size of the bank loan will hold in the future, the MHRA has asked that the city sell \$3.4 million of bonds in early 1975, instead of the previously agreed upon \$1.7 million. The program is expected to have used \$25 to \$30 million for loan principal by mid-1977.<sup>13</sup>

The city and the MHRA will go to the state legislature during the 1975 session in an effort to raise the amount of grant money that may be awarded under the program. The legislature will be asked to raise the limit on grants from 5 percent of outstanding bond

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<sup>11</sup>The five banks were: First National Bank of Minneapolis, Northwestern Bank of Minneapolis, National City Bank of Minneapolis, Marquette National Bank, and Midland National Bank.

<sup>12</sup>Snyder, interview, 19 December 1974.

<sup>13</sup>Coleman, Nick, "3-Year Rehabilitation Plan to Test HRA, City." The Minneapolis Tribune, 5 July 1974, p. A1.

value to 25 percent of that value so that the grant program may be brought more closely into accord with the number of applications. It is expected that some of the \$16.7 million community development block grant from the federal government will be used for housing rehabilitation grants. The Minneapolis 47-member Citizens' Advisory Committee suggested that \$1.5 million of the federal money be used for the grant program.

Because of the sizable amount of money involved and the desire to succeed with this innovative program, City Hall and the MHRA have tried to reach prospective clients with procedures that cater to their habits. Mayor Hofstede requested that the community's financial institutions make available loan and grant application forms upon request so that applicants may initiate the process in familiar surroundings. Over 38 financial institutions, some neighborhood groups, and MHRA offices now have application forms for clients' convenience. A "hot line" was established to answer quickly any questions about the program. Booklets, maps of places that provide application forms, and fliers were sent out. Program developments were usually in the newspapers and Mayor Hofstede discussed the program on local television. Neighborhood meetings were called to discuss the program.

The procedure that an applicant must follow to obtain a loan or grant is a simple one, if the program operates according to the guidelines. After an application is completed, it is forwarded to the MHRA (Appendix 1). The applicant is contacted within 8 days to assure him that his application is being processed. A MHRA secretary transcribes information from the application forms to departmental worksheets. A secretary then checks titles, gets credit reports by phone, verifies employment and mortgage or contracts-for-deed by phone, and passes the information to a finance counselor.<sup>14</sup> The finance counselor checks the applicant's eligibility for assistance. Applicants in great need of assistance and clearly unable to afford conventional loans may be processed with greater dispatch than others. If the case is a marginal one, the applicant is contacted by a finance counselor and asked to provide additional information. In some cases, the applicant may be provided help so that he does qualify for the program. This entire process should be completed in two weeks (Appendix 2).

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<sup>14</sup>The MHRA's loan and grant section is composed of a finance unit and a rehabilitation unit. The finance unit consists of 6 full-time and 2 part-time counselors.

If the applicant is determined eligible for assistance, a rehabilitation (rehab) counselor is assigned to the case.<sup>15</sup> The rehab counselor, who follows the application to the end of the process, contacts the applicant to arrange an appointment at the property to be rehabilitated. The rehab counselor analyzes the rehabilitation needs of the property using a standardized check form and can answer questions for the applicant (Appendix 3). One cost estimate is made by the counselor for all needed work and another for the additional work that the owner wants done. The applicant has a choice of whether he or the MHRA should secure a contractor.

If the applicant chooses to find a contractor, he is given a list of contractors that have completed an MHRA training seminar; he is not restricted to that list, however. The rehab counselor and the applicant jointly review bids for the job, and the applicant makes the final choice among contractors.

A loan is closed in the MHRA office if the loan is for less than \$5,000, or at the Minnesota Title Insurance Company offices if the loan is for more than that amount. The closing may be held at the applicant's home if he is unable to get to the office because of poor health. Proper escrow accounts are established for loans and grants.<sup>16</sup>

Loan repayment is made through Twin City Federal and the contractor is paid after a final inspection of the work. Loans in excess of \$1,000 are secured by a mortgage of the properties being rehabilitated. In the case of contract-for-deed purchasers, loans are secured by refinancing and using the mortgage as security or by obtaining the contract vendor's signature on the mortgage. Collections of delinquent loans are referred to the MHRA's rent department.

All steps after the credit checks and the determination of eligibility by the finance counselors proceed at a pace set by the applicant. If the system operates as designed, it should be possible to get through most of the process in a month.

The administrative guidelines, as written by the MHRA and the steering committee, are used to determine eligibility for grants and loans, to give assurance to the banks that the program is being

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<sup>15</sup>The rehabilitation unit has 10 counselors. The rehab counselors usually have some experience in architecture.

<sup>16</sup>Loan and grant/loan checks are deposited into daily interest bearing accounts at Northwestern National Bank. Straight grant checks are deposited at the First Plymouth National Bank.

run properly, and to make sure that the contractor's work is completed in a satisfactory manner. Salient points of the operation of the program include:

- . Owner occupants, contract-for-deed buyers and absentee owners are eligible. Absentee owners are eligible, regardless of where they live, if the property to be rehabilitated is in Minneapolis. Nonprofit corporations which acquire, rehabilitate, and sell residential properties are also eligible.
- . An applicant is eligible if housing related expenses would exceed 25 percent of his household's monthly income with the addition of a private rehabilitation loan or a loan from another government program.
- . The MHRA makes a special effort to accommodate property owners required to rehabilitate housing because of an urban renewal or code enforcement program, or because of a court order. Efforts are also made to provide assistance for those unable to receive property insurance because of physical hazards and for those who have purchased property through an urban homesteading program.
- . Loans are not approved if the existing indebtedness of the property plus the rehabilitation loan would exceed the after-rehabilitation fair market value of the property.
- . Rehabilitation loans are used primarily for code compliance and incipient code items. Limited funds are available for general property improvements for properties being brought into full code compliance.
- . Rehabilitation grants are used for the repair of code violations that represent an immediate threat to health or safety.
- . All work performed must meet city codes.
- . It is not necessary to bring the property to full code compliance, although applicants are strongly urged to do so.

There are three interest rates available in the loan program -- 4, 6, and 8 percent. Appropriate interest rates are determined on the basis of the applicant's gross income and number of children (Appendix 4). The MHRA plans to use about one-half of its loan principal for 4 percent loans and split the remaining funds evenly between 6 and 8 percent loans, although a specific fund allocation scheme has not been established. Absentee owners are usually not eligible for the lowest interest rate. Nonprofit rehabilitation corporations, on the other hand, receive the lowest interest rate. Maximum term for any rehabilitation loan is 20 years.

The bank loans to the MHRA are at an interest rate of 6 percent. The MHRA decided to subsidize interest rates to a maximum of 2



percent; hence, the 4 percent loans. The MHRA's 6 percent loans do not require interest subsidies, but the MHRA must pay some of the costs of administering the loans. Eight percent loans probably pay for themselves.

Owner occupants and contract-for-deed purchasers are eligible for grants of up to \$5,000 if their gross annual incomes are \$5,000 or less regardless of the number of children. Absentee owners are not eligible for grants nor are properties eligible for grants if they contain more than two dwelling units. As a guard against speculation with grant money, the value of the grant must be refunded to the MHRA on a prorated basis if the rehabilitated property is sold within three years of the date on which the grant is provided. Proposed changes in the grant guidelines may change the maximum grant to \$6,000 and establish a graded eligibility scale.

In some cases, the MHRA refinances an applicant's existing housing debts to enable him to qualify for the program. Refinancing is possible only for owner-occupants and contract-for-deed purchasers. To be eligible for refinancing, an owner-occupant's existing monthly payments for the property mortgage plus the payments for the rehabilitation loan must be more than 25 percent of the applicant's monthly income. However, the qualification is waived for the contract-for-deed purchasers. Two regulations were established to prevent the program from being exploited as a tool for refinancing existing mortgages. First, rehabilitation costs must equal or exceed one-third the existing indebtedness on the property. Second, refinancing is done at the 8 percent (highest) interest rate.

All contractors involved in the program must carry adequate insurance (Appendix 5), provide warranties on goods and workmanship, and be registered with the Minneapolis Better Business Bureau. Contractors must possess all necessary licenses to perform the contracted work, although the applicants are permitted to do some of the work themselves as specified in the contracts. In the event of a client-contractor dispute, the MHRA acts as an advocate for the program's client.

### Progress

Despite their strong efforts to promote the program, the MHRA authorities were undecided what public reaction would be when the program started. The MHRA's goal for December 31, 1974, was 920 houses rehabilitated under the loan and grant program. The program became operational on August 1 and 250 applications had been received by August 14. Three days later, the total was 300. By October, 873 people had applied for rehabilitation assistance.

Initial enthusiasm for the project was good and it was obvious that the program would not be able to keep up with the deluge of applications received in the first few days. By October, however, the staff should have been nearly up-to-date. The MHRA should have expected that many applications would have to be turned down

for various reasons and if the goal was 920 houses rehabilitated from August 1 to December 31, perhaps 1,600 to 1,800 applications should have been expected during that period. Therefore, 800 or 900 applications should have been processed by the middle of October, the halfway point of the program's 1974 duration.

The MHRA was far short of 800 applications processed in that time period. As of October 24, applications totalled 977 and of those, only 347 had reached the point where they could be rejected or approved. Several reasons have been put forward for the processing lag. First, the staff was not well trained before the program went into operation. There was pressure to move quickly when the program was being established and as a result the workers had to learn their jobs as they performed them. This undoubtedly slowed down processing during the initial deluge of applications. Second, the program was temporarily slowed by a title-checking problem at the city's land office.

Probably more important than the above reasons for the program's failure to meet its proposed schedule is the fact that nearly all such programs require a trial stage. People learn the most efficient ways to handle their jobs through experimentation. Forms and monitoring systems need to be designed and then redesigned. The planners may have been much too optimistic in predicting the program's goals for the latter half of 1974. James Harrington, the MHRA's executive director, predicted that the program would have no trouble reaching long-term goals despite the shortfall of 1974. His view was given some credence when the number of properties for which loans and/or grants had been closed jumped from 78 to 152 in the last weeks of 1974.

While the staff is perhaps becoming more productive, they also have fewer new applications on which to work. The average is now 15 applications received per week. Applications totalled 1,227 by January 16, 1975. Of those, 665 were listed as "to be rehabilitated" and 539 were rejected.<sup>17</sup> With such a large proportion of the applications dropped, the MHRA will have to process an average of 65 per week to get 1,900 or 2,000 houses rehabilitated each year. (Approximately 37 houses must be rehabilitated each week to reach that goal.) It remains to be seen whether there will be enough

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<sup>17</sup> Those who were dropped from the program by December 23, 1974, included the following (among others):

- 166 - eligible for the 115-312 programs
- 63 - could afford Title I or conventional loans
- 60 - poor credit rating
- 42 - unable to satisfy judgements, collections
- 62 - no "affordability" and not eligible for grant
- 93 - applicant withdrew
- 17 - unresolved title problems

applications received after winter's seasonal drop to make the goal possible, regardless of the MHRA's efficiency.

No strong efforts were made to increase the number of applications after the first influx, and during the following period of slack demand, the MHRA indeed began to catch up. A new publicity program should be organized to encourage more applications. The program will certainly fail to have its desired impact without greater public awareness.

The MHRA's original program outline would have permitted only owner-occupants to apply. Although later changes resulted in a much more flexible program, largely at the behest of the steering committee, nearly all applications for assistance have been from owner-occupants in single family dwellings. One nonprofit corporation submitted an application but it was rejected when it was found that the corporation did not own the properties that it wanted to rehabilitate. Recently, another nonprofit corporation applied, but no decisive action has been taken on the application.

The long-range expectations of a 2-1-1 ratio for the 4, 6, and 8 percent loans have not materialized. Many more 4 percent loans have been made than expected. Since the 2-1-1 ratio was established to make sure that enough 4 percent loans would be made, the MHRA is unconcerned about this situation. The MHRA has had no trouble awarding its grants, as might be expected.

The MHRA's prediction of the average loan size was accurate. The loan program's finances were based on an estimated \$5,000 per loan, and as of January 16, 1975, the average loan was \$4,544. The average grant value was \$2,979.

The program has experienced some complaints about the quality of work done by contractors. The MHRA staff reports, however, that the number of complaints are about what was expected under such a program and the staff is not alarmed about that problem. The delays experienced by many applicants must be another source of discontent with program. The 93 applicants (as of December 23, 1974) that have withdrawn from the program probably include some who were unable to wait or who did not want to wait for the MHRA's decision process to run its course.

#### What Does the Program Mean for Minneapolis?

City Council President Louis G. DeMars estimated that it would cost \$200 million to rehabilitate all houses in Minneapolis requiring such work.<sup>18</sup> The loan and grant program will, hopefully, stimulate the rehabilitation of about 6,000 houses out of the 27,000 houses in Minneapolis that need at least some

<sup>18</sup> Coleman, Nick, "3-Year Rehabilitation Plan." The Minneapolis Tribune, 5 July 1974, p. A1.

rehabilitation. If the program lives up, to highest expectations, the problem will still be much larger than the solution. For this reason, it is important to use the program in such a way that maximum benefit will be achieved.

The Citizens League has been concerned with restoring confidence in St. Paul and Minneapolis neighborhoods while upgrading the quality of life and, consequently, the appeal of those neighborhoods. The Citizens League has addressed many issues of importance for neighborhoods ranging from crime prevention to recycling programs. The thrust of the League's effort has been to use increased neighborhood identity to make the older neighborhoods more attractive to present and prospective residents. One of the Citizens League's strongest efforts has been to persuade city officials in Minneapolis and St. Paul to allocate city rehabilitation money on a neighborhood basis.

The rationale behind these efforts is that 6,000 rehabilitated houses spread throughout the city would have a much smaller visual and, consequently, smaller real impact on the city's health than would several areas of concentrated rehabilitation. The Citizens League points out that no one buys a house simply on the basis of house size, style, and price. People also buy location, neighborhood reputation and appearance, and the prospective neighbors. Nor are loans provided on the basis of individual houses. A recent addition to Minneapolis civil rights regulations that forbids discrimination in making loans based on neighborhood quality (red-lining) will not revolutionize financial practices.

Since neighborhood quality plays an important part in choosing a new house and then obtaining money for it, the Citizens League asserts that it makes sense to use the same neighborhood unit for rehabilitation. Furthermore, the League thinks that allocating funds on a neighborhood basis would spur interest in the rehabilitation program because people would be more apt to apply if they knew that "X" dollars were "just waiting to be used" in their neighborhood.<sup>19</sup>

The city and the MHRA seem to agree with these ideas. One publicity flier for the program announced that "rehabilitation efforts will permit residential neighborhoods in the city to be maintained and improved."<sup>20</sup> The MHRA did arrange two seminars to help neighborhood groups organize around the rehabilitation issue, and neighborhood groups have been encouraged to publicize the program. Nevertheless,

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<sup>19</sup>Grika, Mary Ellen, interviewed at Citizens League office, 15 January 1975.

<sup>20</sup>"Home Repair," MHRA publicity pamphlet.

the program guidelines forbade group applications until the steering committee protested. The final guidelines do not prohibit group applications, nor do they encourage such applications.

One group from the Field-Regina neighborhood applied for rehabilitation assistance and the applications were processed together. The group did employ a common contractor and received a discount that would have been even larger with a larger group. Another group from Lowry Hill East is now preparing to submit its applications.<sup>21</sup> It would, of course, be possible for group members to apply separately and then hire a common contractor.

It is certainly not clear that the neighborhood approach is "the answer." In a neighborhood of 4,000 people, it is possible that rehabilitation efforts may still be sufficiently spread out to minimize any visual impact. Much rehabilitation is internal and cannot be seen from outside the structure being rehabilitated, much less provide a neighborhood rallying point. The Field-Regina group needed some exterior cosmetic work. The Lowry Hill East group, however, will not require such work.

Neighborhood allocation could increase administration costs and concentrate "extra" funds in some places to the detriment of others that lack an effective voice in the program's operation. Would it be more important to funnel funds into a deteriorated area than it would be to work on one sub-standard house in an otherwise healthy neighborhood? Similar questions will have to be asked if funds are to be allocated geographically. It is also possible that an allocation of money to a neighborhood could lead residents of the neighborhood to assume a tainted view of their surroundings; perhaps they would want to flee to the suburbs where homes are "nice enough that they don't require government assistance." A demonstration neighborhood provided with an allocation of rehabilitation money would probably help to identify some answers to these questions.

### Questions

Housing rehabilitation is not new to Minneapolis. The local program was designed to fill the gaps between the state and federal programs. Although the state program has not gone into operation, the federal programs have long operated in designated parts of Minneapolis. Still, the city's planners show that there are many sub-standard houses in the city. These houses and the uncertain future of existing federal housing rehabilitation programs led to the development of the local program.

Is the program needed? The 27,000 sub-standard houses in Minneapolis seem to warrant some action although it is unclear that

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<sup>21</sup>Grika, Mary Ellen, interview, 15 January 1975.

these houses will be the only ones rehabilitated. Nor is it clear that all of these houses that are rehabilitated under the local program would have continued in their decline without the program. On the other hand, many people with low incomes probably will not be anxious to take a loan at any interest rate, especially in the context of a faltering national economy.

If the program is a success, how would it affect the future of Minneapolis? Probably 6,000 houses would be in better condition. Maybe private financing would become more plentiful if lenders reacted favorably to rehabilitation efforts in parts of the city. It is difficult to believe, however, that red lines will be redrawn as a result of some neighborhood houses being rehabilitated. It would also be foolish to count on a strong stream of people into the central city. The price of gasoline may become outrageous, but that will be a lesser part of the location decision than the appearance of the neighborhood. Why locate in a central city neighborhood where there may be only a few run-down houses instead of a suburb that is probably without badly deteriorated houses? Why move to Minneapolis and pay a property tax exceeding that in the suburbs.

The program does represent positive action by the city. It is an innovative approach to a problem that all cities face. Minneapolis housing stock rates favorably compared to that of other cities and, with the added benefit of strong citizen interest, this city will be a good testing ground for the program. The program should be watched carefully and its progress analyzed in a systematic manner.

Goals should be established so that there are criteria against which the program's progress may be measured. Are houses being rehabilitated to last just a few more years so that a family may be more comfortable in the meantime? Will this program substantially lengthen housing life, instead? What is the expected life of a frame house in Minneapolis? Should whole neighborhoods be "saved?" Or, are the primary goals more concerned with cutting transience by offering better houses? There does seem to be some sort of vague relationship between housing quality and residential mobility.

The program's steering committee is still in existence and meets every second week. The committee has monitored the program since its initiation. A careful evaluation of the program's operation will supposedly be started in the near future. Program records will be kept on computer cards; this should facilitate a thorough evaluation.

Many questions need to be asked:

- . Are rental properties being affected through the program?
- Are certain areas doomed because of a preponderance of sub-standard rental properties?

- . How old are the houses being rehabilitated? Does the geographical distribution of applicants simply reflect the city growth (and housing age) patterns?
- . Are many of the applications from fringe areas around the most dilapidated neighborhoods? Private builders have selected this as the most promising starting point for rehabilitation efforts.
- . Does the geographical distribution of applications reflect the strength of neighborhood associations and the appropriate communication network? If so, perhaps money should be allocated to neighborhoods to take advantage of the association's expertise.
- . Has there been any influence on the lending practices of private institutions?
- . Are geographical ethnic patterns obvious in the participation (or non-participation) rate in the program?
- . At what stage in the life cycle are most applicants? Will the loans make any impression on the city's mobility patterns? If so, what groups will be most effected?

The goal of the evaluation should be to determine the probable future of the city's housing stock in the absence of the program and to compare the findings with the predicted effects of the program.

Applications are available at private financial institutions, MHRA offices, and through some neighborhood associations. The two-page application form is accompanied by an instruction sheet (not shown here) and a phone number is listed for those applicants requiring further help with the forms.

PERMISSION TO RELEASE INCOME INFORMATION

Form 1001

TYPE  
or  
PRINT

Applicant (Name & Address)

CITY OF MINNEAPOLIS REHABILITATION PROGRAM  
Minneapolis Housing & Redevelopment Authority  
1015 Olson Highway, Minneapolis, Mn. 55405

TYPE  
or  
PRINT

Source of Income (Name & Address)

APPLICANT: Read carefully.

Please fill out and sign the upper half of this form. We can not complete processing your home rehabilitation loan or grant application until your source of income returns this form with the lower half signed and completed.

Fold here for mailing in #10 window envelope

NOTICE TO: Employer, public agency or insurance company - This is to certify that I, the undersigned have examined this form and hereby give you permission to release the income information requested. Please complete the statement checked below.

|                     |           |   |                              |
|---------------------|-----------|---|------------------------------|
| Applicant Signature |           | Applicants receiving monthly insurance or public agency benefits: give birth date and claim number below. |                              |
| Date                | Workphone | Ext.  |                              |
|                     |           | Birth Date  | Social Security or Claim No. |

EMPLOYEE INCOME STATEMENT

Type of work or position

Dates of employment

|   |   |
|---|---|
| Gross Income last year<br>\$            | Average No. of months employed per year |
| Hourly Wage or Monthly Salary<br>\$ per | Average No. of Hours/Week               |

Probability of continued employment

PUBLIC AGENCY or INSURANCE BENEFITS

|   |    |
|---|----|
| Monthly payment to applicant  | \$ |
| Additional payments not included above (Supplemental grants and so on.) | \$ |
|   | \$ |
| Total value of monthly benefits to applicant                            | \$ |
| Length of time or amount still to be paid                               |    |

COMMENTS:

|                             |      |                   |
|-----------------------------|------|-------------------|
| Signature of Representative | Date | Position or title |
|-----------------------------|------|-------------------|

Please return this form at your earliest convenience. A stamped, return-addressed envelope is enclosed.



**REHABILITATION PROGRAM APPLICATION**

The circular "Instructions for Completing Rehabilitation Program Application" contains details on how to use this form. If any further assistance is needed call 348-6842.

**CITY OF MINNEAPOLIS**

Minneapolis Housing & Redevelopment Authority  
 Loan and Grant Department  
 1015 Olson Memorial Highway  
 Minneapolis, Minnesota 55405

|                       |
|-----------------------|
| Application Number    |
| Date Received at MHRA |

|   |       |                          |     |                |            |                       |   |
|---|-------|--------------------------|-----|----------------|------------|-----------------------|---|
| APPLICANT <input type="checkbox"/> Mr. <input type="checkbox"/> Ms. |       |                          |     | SPOUSE         |            |                       |   |
| Last Name   | First | Initial                  | Age | Marital Status | First Name | Initial               | Age   |
| Home Address (Street, City, State & Zip)                            |       | Social Security Numbers  |     |                | Home Phone |                       |   |
|   |       | Applicant                |     | Spouse         |            |                       | <b>DO NOT WRITE IN THE SPACE BELOW</b><br><br>Area Enclosed By Heavy Black Line Is For MHRA Use |
|   |       | Dependents               |     |                |            |                       |   |
|   |       | Number at Home           |     | Ages           |            |                       |   |
| Address to be Rehabilitated (if different)                          |       | No. of Dwelling Units    |     | Date Purchased |            |                       |   |
| Applicant's Employer (Name & Address)                               |       | Type of work or position |     | Starting Date  |            | Gross Annual Income   |   |
|   |       | Work phone               |     | Ext.           |            | \$ _____ for 19 _____ |   |
| Applicant's Previous Employer                                       |       | Type of work or position |     | How Long?      |            | Expected Income       |   |
| Spouse's Employer (Name & Address)                                  |       | Type of work or position |     | Starting Date  |            | Gross Annual Income   |   |
|   |       | Work phone               |     | Ext.           |            | \$ _____ for 19 _____ |   |
| Spouse's Previous Employer  |       | Type of work or position |     | How Long?      |            | Expected Income       |   |
| Other Sources of Income (Name persons/agencies)                     |       |                          |     | Total Monthly  |            | Total Combined Income |   |
|   |       |                          |     | \$             |            | \$                    |   |

|  |                |                 |                   |                |         |    |
|--|----------------|-----------------|-------------------|----------------|---------|----|
| <b>LIABILITIES: List all outstanding debts below. If more space is needed, use other side.</b> |                |                 |                   |                | P & I   | \$ |
| Mortgage (Lender's Name)   | Account Number | Original Amount | Monthly Pmt.      | Unpaid Balance |         |    |
|  |                | \$              | \$                | \$             | +       |    |
| Lender's Address   |                |                 |                   |                |         |    |
|  |                |                 |                   |                |         |    |
| Contract for Deed (Vendor)   | Account Number | Original Amount | Monthly Pmt.      | Unpaid Balance | FHA 235 | -  |
|  |                | \$              | \$                | \$             | Total   | \$ |
| Vendor's Address   |                |                 |                   |                |         |    |
|  |                |                 |                   |                |         |    |
| Home Improvement Loan (Lender's Name & Address)  |                |                 | Monthly Pmt.      | Unpaid Balance | P & I   | \$ |
|  |                |                 | \$                | \$             | Taxes   | +  |
| Other Loans, Charge Accounts, etc. (Lender's Name & Address)                                   |                |                 |                   |                | Total   | +  |
|  |                |                 | \$                | \$             | Total   | \$ |
|  |                |                 | \$                | \$             |         |    |
|  |                |                 | \$                | \$             |         |    |
|  |                |                 | \$                | \$             |         |    |
|  |                |                 | \$                | \$             |         |    |
| If list is continued on other side, check here: <input type="checkbox"/> See Reverse           |                |                 | Total LIABILITIES | \$             | \$      |    |

|   |              |
|---|--------------|
| <b>ASSETS: List all assets (i.e. cash, stocks, bonds, other real estate &amp; savings/checking accounts.)</b> |              |
| Description of Asset  | Amount/Value |
|   | \$           |
|   | \$           |
|   | \$           |
| If list is continued on other side, check here: <input type="checkbox"/> See Reverse                          | Total ASSETS |
|   | \$           |

|  |                      |                 |
|--|----------------------|-----------------|
| <b>HOMEOWNER INSURANCE: Describe current policy coverage for the property to be rehabilitated.</b> |                      |                 |
| Name of Insurance Company  | Policy Number        | Expiration Date |
| Name & Address of Local Agent  | Agent's Phone Number | Ext.            |

|  |                         |
|--|-------------------------|
| Have you ever been involved in a foreclosure? No Yes (If yes, please describe below) |                         |
| Property Address   | Lender Foreclosure Date |

The above statements are made for the purpose of securing a rehabilitation loan and/or grant, and are true to my best knowledge and belief. I authorize you to obtain such further information as you may deem necessary and authorize verification from any source named herein.

|  |                       |      |
|--|-----------------------|------|
| <b>NOTE: THIS FORM HAS DATED INFORMATION</b> After completion forward immediately to the MHRA Loan and Grant Department ( address above ). | Applicant's Signature | Date |
|--|-----------------------|------|

|   |                             |      |
|---|-----------------------------|------|
| <b>Applicant: DO NOT WRITE BELOW. For use of personnel assisting with completion of this application.</b> |                             |      |
| Name & Address of Institution or Organization   | Signature of Representative | Date |
|   | Title or Position           |      |

Appendix 2

Finance counselors use three main worksheets when determining applicant eligibility for loans and grants. Copies of those worksheets are presented on the following pages in the order in which they are used by the MHRA. The counselors use the first worksheet, or checklist, simply to note the information needed about each applicant. The second worksheet is the one on which counselors determine affordability and maximum loan size, and the third is a loan eligibility and cost summary sheet.

Worksheet 2 includes the formula used to determine the maximum size of a loan:

- (1) Assessor's value + 10% assessor's value = adjusted fair market value
- (2) Adjusted fair market value - existing indebtedness = equity
- (3)  $\frac{\text{Equity}}{.60} = \text{maximum loan amount}$

The first equation shows that the tax assessor's valuation of a property is adjusted upward by 10 percent to obtain the "adjusted fair market value". MHRA planners think that tax valuations are in most cases lower than fair market value and, therefore, adjust those valuations to maximize applicant equity (Equation 2).

Equity is divided by .60 to obtain the maximum loan amount (Equation 3) because a Minneapolis study has shown that the market value of a home increases by 40 percent of the amount spent for rehabilitation work. An example will clarify the logic of this procedure. Suppose that a home owner has \$2,400 equity. By the above Equation 3, his maximum loan would be \$2,400 divided by .60 = \$4,000; and if \$4,000 was spent on rehabilitation, the home owner's property would increase in value by \$1,600 (40 percent of \$4,000 is \$1,600). In case of foreclosure, the MHRA would hope to recover the \$2,400 equity and the increased value of the home from rehabilitation -- \$1,600:

$$\$2,400 + \$1,600 = \$4,000, \text{ the amount of the loan.}^{22}$$

The use of the formula ensures the borrower that he has not gone too far into debt. The formula will also minimize MHRA losses through defaults.

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<sup>22</sup>The example was provided by K. Gilder.

| CREDIT HISTORY |                         | RECEIVED |   | SECURITY |   |
|----------------|-------------------------|----------|---|----------|---|
| DATE           | DESCRIPTION             | A        | B | A        | B |
|                | TRANSFER FROM           |          |   |          |   |
|                | Letter Credit Report    |          |   |          |   |
|                | CO-EMERGENCY CREDIT     |          |   |          |   |
|                | TITLE VERIFICATION      |          |   |          |   |
|                | CHECKED FOR LEAD        |          |   |          |   |
|                | Mortgage Verification   |          |   |          |   |
|                | Divorce Decree          |          |   |          |   |
|                | Verified Loans          |          |   |          |   |
|                | Credit Score            |          |   |          |   |
|                | Tax Forms               |          |   |          |   |
|                | Employment Verification |          |   |          |   |
|                | Social Security         |          |   |          |   |
|                | V. A.                   |          |   |          |   |
|                | Life Insurance          |          |   |          |   |
|                | AFCU                    |          |   |          |   |
|                | Police Record           |          |   |          |   |
|                | Utilities: Gas          |          |   |          |   |
|                | Water                   |          |   |          |   |
|                | Electric                |          |   |          |   |
|                | LLP Inspection Request  |          |   |          |   |
|                | Title Binder            |          |   |          |   |
|                | Appraisals              |          |   |          |   |
|                | Insurance Letter        |          |   |          |   |
|                | Bids Requested          |          |   |          |   |
|                | Bids Received           |          |   |          |   |
|                | Board Approval          |          |   |          |   |
|                | LOU                     |          |   |          |   |
|                | Map                     |          |   |          |   |
|                | Other                   |          |   |          |   |
|                | PROPERTY TAX            |          |   |          |   |

It is noted here if applicant has been transferred from another government program.

"LLP" is Local Loan Program.

The application may be transferred to another program.

"FI" inte exist

The 25% income mont pens hous comp expe left in P

Tax tion esti of a

The is a 10% the valu maxi

"EI" is principal and interest payment on existing home loan.

The housing margin is 25% of gross monthly income minus total monthly housing expenses. Monthly housing expenses are computed by adding the expenses listed on the left side of the box in Part 1.

Tax assessor valuations are used to estimate the value of a property.

The assessor's value is adjusted upward by 10% to compensate for the usually low tax valuations and to maximize loan potential.

FILE NO. \_\_\_\_\_ APP. # \_\_\_\_\_

Eligibility Computations:

Part 1 - Use dollars per month figured

|                                       |                     |
|---------------------------------------|---------------------|
| PI                                    |                     |
| Taxes & Ins.                          |                     |
| Utilities                             | Gross Income (G.I.) |
| Maintenance                           | % of GROSS LEVEL    |
| Total                                 | \$                  |
| (A) Housing Margin                    | \$                  |
| (25% level - total)                   |                     |
| Assessor's Value (AV)                 | \$                  |
| Compute 110% of AV                    |                     |
| (C) Adjusted Tax Assessor Value (ATV) | \$                  |
| = AV + 10% AV                         |                     |
| (D) Less Existing Liabilities (EI)    | \$                  |
| Equity = (ATV - EI)                   | \$                  |
| (E) Maximum Loan Equity               | \$                  |

Part 3 - Use dollars per month figured

|                     |                 |
|---------------------|-----------------|
| Total Disbursements |                 |
| Utilities           |                 |
| Maintenance         |                 |
| Expenses            | Net Income (NI) |
| Total               | \$              |

Expense Sheet (if necessary)

|                              |
|------------------------------|
| (a) Grocery Store            |
| (b) Restaurants              |
| (c) Gasoline                 |
| (d) Insurance                |
| (e) Bus or Cab, Etc.         |
| (f) Maint./Car Repair        |
| (g) Life                     |
| (h) Health/Accident          |
| (i) Churches, Etc.           |
| (j) Charitable Contributions |

The right side of this form is used in marginal cases where the counselor wants an accurate account of the applicant's budget.

The formula for maximizing loan size (see text of this appendix).

Part 3 differs from Part 1 because here all monthly costs are considered, not just housing costs.

P: Rev  
11030

STATEMENT OF ELIGIBILITY - LLP EVALUATION PROCEED

Computed in Part 1, Worksheet 2.

Affordability is the difference between total expenses and net income; these figures are available in Part 3, Worksheet 2.

"PIem" is principal and interest in existing house mortgage.

\$100 is charged to service those loans for over \$5,000:

A contingency allowance of approximately 3% is usually added to the amount of the loan.

Principal and interest on existing house mortgage.

Principal and interest on improvement loan.

Payments on the improvement loan and on the refinanced existing mortgage are calculated separately and then added together at the bottom of the page.

| LAST   |  | FIRST |  | INIT. | AGE | SPOUSE     |  | INIT.      | AGE |
|--|--|-------|--|-------|-----|------------|--|------------|-----|
| ADDRESS - RES.   |  |       |  |       |     | RES. PHONE |  | WORK PHONE |     |
| PROPERTY ADDRESS   |  |       |  |       |     | H.O.       |  | PHONE      |     |
| NATURE OF WORK:  |  |       |  |       |     | H.O. EST.  |  | \$         |     |
| REASON: <input type="checkbox"/> Property improvement <input type="checkbox"/> Urban homesteading<br><input type="checkbox"/> Code enforcement/court order <input type="checkbox"/> Property ins. rea.   |  |       |  |       |     |            |  |            |     |
| 1. HOUSING HAZARD: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K <input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> N <input type="checkbox"/> O <input type="checkbox"/> P <input type="checkbox"/> Q <input type="checkbox"/> R <input type="checkbox"/> S <input type="checkbox"/> T <input type="checkbox"/> U <input type="checkbox"/> V <input type="checkbox"/> W <input type="checkbox"/> X <input type="checkbox"/> Y <input type="checkbox"/> Z   |  |       |  |       |     |            |  |            |     |
| 2. Loan Limitations: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K <input type="checkbox"/> L <input type="checkbox"/> M <input type="checkbox"/> N <input type="checkbox"/> O <input type="checkbox"/> P <input type="checkbox"/> Q <input type="checkbox"/> R <input type="checkbox"/> S <input type="checkbox"/> T <input type="checkbox"/> U <input type="checkbox"/> V <input type="checkbox"/> W <input type="checkbox"/> X <input type="checkbox"/> Y <input type="checkbox"/> Z |  |       |  |       |     |            |  |            |     |
| 3. Affordability: <input type="checkbox"/> (4%) <input type="checkbox"/> (6%) <input type="checkbox"/> (8%) <input type="checkbox"/> (10%)   |  |       |  |       |     |            |  |            |     |
| 4. Eligible for grants: <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 5. <input type="checkbox"/> Yes <input type="checkbox"/> No  |  |       |  |       |     |            |  |            |     |
| 6. <input type="checkbox"/> Yes <input type="checkbox"/> No  |  |       |  |       |     |            |  |            |     |
| 7. <input type="checkbox"/> Yes <input type="checkbox"/> No  |  |       |  |       |     |            |  |            |     |
| 8. Total Loan Cost: \$ <input type="checkbox"/> /K = \$ <input type="checkbox"/><br>(This includes closing costs) <input type="checkbox"/> (4%) \$6.00/K = \$ <input type="checkbox"/><br>\$100 contingency <input type="checkbox"/> (6%) \$7.17/K = \$ <input type="checkbox"/><br>\$ <input type="checkbox"/> <input type="checkbox"/> (8%) \$8.37/K = \$ <input type="checkbox"/><br>NOTE: RESULT IN #9 MUST = OR BE LESS THAN #3   |  |       |  |       |     |            |  |            |     |
| 9. For grant only<br>Total loan cost: \$ <input type="checkbox"/><br>Less est. total Haz.: <input type="checkbox"/> (4%) \$6.00/K = \$ <input type="checkbox"/><br>Adj. loan cost: \$ <input type="checkbox"/><br>NOTE: RESULT IN #9 MUST = OR BE LESS THAN #3   |  |       |  |       |     |            |  |            |     |
| 10. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 11. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 12. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 13. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 14. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 15. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 16. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 17. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 18. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 19. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 20. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 21. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 22. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 23. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 24. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 25. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 26. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 27. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 28. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 29. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 30. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 31. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 32. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 33. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 34. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 35. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 36. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 37. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 38. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 39. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 40. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 41. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 42. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 43. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 44. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 45. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 46. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 47. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 48. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 49. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 50. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 51. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 52. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 53. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 54. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 55. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 56. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 57. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 58. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 59. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 60. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 61. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 62. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 63. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 64. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 65. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 66. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 67. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 68. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 69. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 70. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 71. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 72. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 73. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 74. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 75. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 76. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 77. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 78. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 79. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 80. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 81. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 82. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 83. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 84. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 85. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 86. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 87. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 88. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 89. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 90. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 91. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 92. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 93. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 94. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 95. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 96. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 97. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 98. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 99. <input type="checkbox"/> Yes <input type="checkbox"/> No   |  |       |  |       |     |            |  |            |     |
| 100. <input type="checkbox"/> Yes <input type="checkbox"/> No  |  |       |  |       |     |            |  |            |     |

"DU" refers to the number of dwelling units in the property to be rehabilitated.

"H.O.EST." is the home owner's estimate (if he has one) of the cost of the needed work.

"CD" is "contract-for-deed."

"GI" is gross income. "MGI" is monthly gross income.

The total costs per month per \$1,000 of loan at the three available interest rates.

"Haz." is an abbreviation for "hazard." Grants are for immediate threats to safety and health.

Appendix 3

Rehab counselors use a four-page standard checklist to make a complete inspection of the structure that will be rehabilitated. The counselors estimate the cost of all work that should be completed and estimate the cost of the work that the applicant wants done.

LOCAL LOAN PROPERTY EVALUATION

OWNER NAME \_\_\_\_\_ HOME PHONE \_\_\_\_\_  
 HOME ADDRESS \_\_\_\_\_ WORK PHONE \_\_\_\_\_  
 JOB ADDRESS \_\_\_\_\_ DWELLING UNITS \_\_\_\_\_

PREPARED BY: \_\_\_\_\_ DATE: \_\_\_\_\_ TIME: \_\_\_\_\_ WORK PHONE \_\_\_\_\_

| EXTERIOR                              | ELIGIBLE WORK | CODE | INCIP | GEN. | RECOMMENDED<br>ADDITIONAL WORK |
|---------------------------------------|---------------|------|-------|------|--------------------------------|
| CHIMNEY                               |               |      |       |      |                                |
| ROOFING                               |               |      |       |      |                                |
| OVERHANGS                             |               |      |       |      |                                |
| GUTTERS                               |               |      |       |      |                                |
| WALLS                                 |               |      |       |      |                                |
| WINDOWS                               |               |      |       |      |                                |
| DOORS                                 |               |      |       |      |                                |
| FOUNDATION                            |               |      |       |      |                                |
| STOOPS                                | FRONT         |      |       |      |                                |
|                                       | REAR          |      |       |      |                                |
| PORCHES                               | FRONT         |      |       |      |                                |
|                                       | REAR          |      |       |      |                                |
| EXTERIOR PAINTING                     |               |      |       |      |                                |
| GARAGE/SHED                           |               |      |       |      |                                |
| DRIVEWAY                              |               |      |       |      |                                |
| FENCING                               |               |      |       |      |                                |
| GRADE WORK<br>AREA WELLS<br>SIDEWALKS |               |      |       |      |                                |
| GRADE STEPS                           |               |      |       |      |                                |
| TREE REMOVAL<br>RUBBISH               |               |      |       |      |                                |
| EXTERIOR TOTAL                        |               | \$   |       |      | ALL ITEMS                      |
| WORK TO BE PERFORMED                  |               | \$   |       |      | CIRCLED ITEMS                  |

| ELECTRICAL   |      |       |     |                  | PLUMBING                     |      |       |     |                  |
|--|------|-------|-----|------------------|------------------------------|------|-------|-----|------------------|
| ELIGIBLE WORK                                      | CODE | INCIP | GEN | RECOMMENDED WORK | ELIGIBLE WORK                | CODE | INCIP | GEN | RECOMMENDED WORK |
| 1ST. FLR. _____ AMP                                |      |       |     |                  | SERVICE                      |      |       |     |                  |
|  |      |       |     |                  | GAS PIPING                   |      |       |     |                  |
| BASEMENT   |      |       |     |                  | WATER PIPING                 |      |       |     |                  |
| REPLACE HAZDS.<br>PROPER # LTS.<br>STAIR LT. & SW. |      |       |     |                  | WASTE & VENT                 |      |       |     |                  |
|  |      |       |     |                  | FLOOR DRAIN                  |      |       |     |                  |
| INSTALL _____ 20 AMP<br>REC.                       |      |       |     |                  | LAUNDRY TRAY                 |      |       |     |                  |
| _____ FURN. CIRCUIT                                |      |       |     |                  | WASHER                       |      |       |     |                  |
| RECEPTACLES<br>INSTALL _____ 15 AMP                |      |       |     |                  | DRYER                        |      |       |     |                  |
| LIV. RM.   |      |       |     |                  | WATER HEATER                 |      |       |     |                  |
| BATH   |      |       |     |                  | WATER CLOSET                 |      |       |     |                  |
| BEDRM  |      |       |     |                  |                              |      |       |     |                  |
| BEDRM  |      |       |     |                  |                              |      |       |     |                  |
| BEDRM  |      |       |     |                  |                              |      |       |     |                  |
| BEDRM  |      |       |     |                  |                              |      |       |     |                  |
| INSTALL _____ 20 AMP                               |      |       |     |                  |                              |      |       |     |                  |
| DN. RM.  |      |       |     |                  | FIRST FLOOR<br>KITCHEN SINK  |      |       |     |                  |
| KIT.   |      |       |     |                  |                              |      |       |     |                  |
| PANTRY   |      |       |     |                  |                              |      |       |     |                  |
| FOUND EXIST. LTS.                                  |      |       |     |                  | GAS RANGE                    |      |       |     |                  |
| KIT.   |      |       |     |                  | WATER CLOSET                 |      |       |     |                  |
| BATH   |      |       |     |                  |                              |      |       |     |                  |
| REPLACE FIXTURES                                   |      |       |     |                  | BASIN                        |      |       |     |                  |
|  |      |       |     |                  | BATHTUB                      |      |       |     |                  |
| ATTIC  |      |       |     |                  | LEAD PLUMBING                |      |       |     |                  |
| GARAGE   |      |       |     |                  |                              |      |       |     |                  |
|  |      |       |     |                  | SECOND FLOOR<br>KITCHEN SINK |      |       |     |                  |
| ELECTRICAL TOTAL \$                                |      |       |     | ALL ITEMS        |                              |      |       |     |                  |
|  | CODE | INCIP | GEN |                  |                              |      |       |     |                  |
| WORK TO BE PERFORMED \$                            |      |       |     | CIRCLED ITEMS    | GAS RANGE                    |      |       |     |                  |
|  |      |       |     |                  | WATER CLOSET                 |      |       |     |                  |
|  |      |       |     |                  | BASIN                        |      |       |     |                  |
|  |      |       |     |                  | BATHTUB                      |      |       |     |                  |
|  |      |       |     |                  | LEAD PLUMBING                |      |       |     |                  |
|  |      |       |     |                  |                              |      |       |     |                  |
| HEATING TOTAL \$                                   |      |       |     | ALL ITEMS        | PLUMBING TOTAL \$            |      |       |     | ALL ITEMS        |
|  | CODE | INCIP | GEN |                  |                              | CODE | INCIP | GEN |                  |
| WORK TO BE PERFORMED \$                            |      |       |     | CIRCLED ITEMS    | WORK TO BE PERFORMED \$      |      |       |     | CIRCLED ITEMS    |

HOUSING EVALUATION

ADDRESS \_\_\_\_\_

PAGE 3

| INTERIOR                 | ELIGIBLE WORK | CODE | INCIP | GEN. | RECOMMENDED<br>ADDITIONAL WORK |
|--------------------------|---------------|------|-------|------|--------------------------------|
| BASEMENT                 |               |      |       |      |                                |
| FLOOR                    |               |      |       |      |                                |
| WALLS                    |               |      |       |      |                                |
| CEILING                  |               |      |       |      |                                |
| STRUCTURAL               |               |      |       |      |                                |
| WINDOWS                  |               |      |       |      |                                |
| DOORS                    |               |      |       |      |                                |
| STAIR TO<br>FIRST FLOOR  |               |      |       |      |                                |
| FRONT PORCH              |               |      |       |      |                                |
| INSIDE                   |               |      |       |      |                                |
| FRONT VEST.              |               |      |       |      |                                |
| FOYER                    |               |      |       |      |                                |
| LIVING ROOM              |               |      |       |      |                                |
| DINING ROOM              |               |      |       |      |                                |
| KITCHEN                  |               |      |       |      |                                |
| PANTRY                   |               |      |       |      |                                |
| REAR ENTRY               |               |      |       |      |                                |
| REAR PORCH               |               |      |       |      |                                |
| INSIDE                   |               |      |       |      |                                |
| HALLWAY                  |               |      |       |      |                                |
| BATHROOM                 |               |      |       |      |                                |
| BEDROOM                  |               |      |       |      |                                |
| BEDROOM                  |               |      |       |      |                                |
| STAIR TO<br>SECOND FLOOR |               |      |       |      |                                |
| HALLWAY                  |               |      |       |      |                                |
| BATHROOM                 |               |      |       |      |                                |
| BEDROOM                  |               |      |       |      |                                |
| BEDROOM                  |               |      |       |      |                                |
| STAIR TO<br>THIRD FLOOR  |               |      |       |      |                                |
| GUARD RAIL               |               |      |       |      |                                |
| WINDOWS                  |               |      |       |      |                                |
| FLOOR                    |               |      |       |      |                                |
| CEILING                  |               |      |       |      |                                |
| WALLS                    |               |      |       |      |                                |
| THIS PAGE TOTAL          |               |      |       |      |                                |
| PAGE 4 (EXTRA UNIT)      |               |      |       |      |                                |
| INTERIOR HOUSING TOTAL   |               | \$   |       |      | ALL ITEMS                      |
| THIS PAGE TOTAL          |               | CODE | INCIP | GEN. |                                |
| PAGE 4 (EXTRA UNIT)      |               |      |       |      |                                |
| WORK TO BE PERFORMED     |               | \$   |       |      | CIRCLED ITEMS                  |



HOUSING EVALUATION ADDRESS \_\_\_\_\_

PAGE 4

| INTERIOR             | ELIGIBLE WORK | CODE | INCIP | GEN. | RECOMMENDED<br>ADDITIONAL WORK |
|----------------------|---------------|------|-------|------|--------------------------------|
| STAIR TO             |               |      |       |      |                                |
| SECOND FLOOR         |               |      |       |      |                                |
| FRONT PORCH          |               |      |       |      |                                |
| INSIDE               |               |      |       |      |                                |
| FRONT VEST           |               |      |       |      |                                |
| FOYER                |               |      |       |      |                                |
| LIVING ROOM          |               |      |       |      |                                |
| DINING ROOM          |               |      |       |      |                                |
| KITCHEN              |               |      |       |      |                                |
| PANTRY               |               |      |       |      |                                |
| REAR ENTRY           |               |      |       |      |                                |
| REAR PORCH           |               |      |       |      |                                |
| INSIDE               |               |      |       |      |                                |
| HALLWAY              |               |      |       |      |                                |
| BATHROOM             |               |      |       |      |                                |
| BEDROOM              |               |      |       |      |                                |
| BEDROOM              |               |      |       |      |                                |
| EXTRA UNIT TOTAL     |               | \$   |       |      | ALL ITEMS                      |
| WORK TO BE PERFORMED |               | \$   |       |      | CIRCLED ITEMS                  |

| LOCAL LOAN PROPERTY EVALUATION SUMMARY   |       |        |                  |                      |       |        |
|--|-------|--------|------------------|----------------------|-------|--------|
| ALL ITEMS  |       |        |                  | WORK TO BE PERFORMED |       |        |
| CODE   | INCIP | GEN I. |                  | CODE                 | INCIP | GEN I. |
|  |       |        | EXTERIOR HOUSING |                      |       |        |
|  |       |        | INTERIOR HOUSING |                      |       |        |
|  |       |        | ELECTRICAL       |                      |       |        |
|  |       |        | PLUMBING         |                      |       |        |
|  |       |        | HEATING          |                      |       |        |
|  |       |        | ESTIMATED TOTALS |                      |       |        |
| \$   |       |        | GRAND TOTALS     | \$                   |       |        |
| <p>I have reviewed this property evaluation and the items circled are those which I desire to have done, and I understand that the costs indicated are merely estimates.</p> <p>_____<br/>Signature of Owner</p> <p>_____<br/>Date</p> |       |        |                  |                      |       |        |

Appendix 4

Income Limit categories are as follows:

| <u>Family Size</u> | <u>Low Interest</u> | <u>Middle Interest</u> | <u>High Interest</u> |
|--------------------|---------------------|------------------------|----------------------|
| 1 person           | Up to \$ 7,200      | \$ 7,201 to \$13,650   | \$13,651 and above   |
| 2 persons          | " " 8,750           | 8,751 to 13,650        | 13,651 " "           |
| 3 persons          | " " 10,000          | 10,001 to 13,950       | 13,951 " "           |
| 4 persons          | " " 10,300          | 10,301 to 14,250       | 14,251 " "           |
| 5 persons          | " " 11,850          | 11,851 to 14,550       | 14,551 " "           |
| 6 persons          | " " 12,150          | 12,151 to 14,850       | 14,851 " "           |
| 7 persons          | " " 12,500          | 12,501 to 15,150       | 15,151 " "           |
| 8 persons          | " " 12,800          | 12,801 to 15,450       | 15,451 " "           |
| 9 persons          | " " 13,100          | 13,101 to 15,750       | 15,751 " "           |
| 10 persons         | " " 13,400          | 13,401 to 16,050       | 16,051 " "           |

If housing-related expenses exceed 25 percent of monthly income, the loan's interest rate will be dropped to the next lowest level. However, those applicants whose income is in the upper level are not eligible to have the interest rate dropped nor are they eligible for grants.

A proposed change of the guidelines soon to be submitted to the City Council will expand the middle interest eligibility and raise the minimum for high interest loans as follows:

| <u>Family Size</u> | <u>Middle Interest</u> | <u>High Interest</u> |
|--------------------|------------------------|----------------------|
| 1 person           | \$ 7,201 to \$16,850   | \$ 16,851 and above  |
| 2 persons          | 8,751 to 16,850        | 16,851 " "           |
| 3 persons          | 10,001 to 17,150       | 17,151 " "           |
| 4 persons          | 10,301 to 17,450       | 17,451 " "           |
| 5 persons          | 11,851 to 17,750       | 17,751 " "           |
| 6 persons          | 12,151 to 18,050       | 18,051 " "           |
| 7 persons          | 12,501 to 18,350       | 18,351 " "           |
| 8 persons          | 12,801 to 18,650       | 18,651 " "           |
| 9 persons          | 13,101 to 18,950       | 18,951 " "           |
| 10 persons         | 13,401 to 19,250       | 19,251 " "           |

Appendix 5

A contractor must have a completed certificate of insurance to work under the Minneapolis house rehabilitation program. The form is the same as that used for the 312 and 115 programs.

CERTIFICATE OF INSURANCE - ISSUED TO THE HOUSING AND REDEVELOPMENT AUTHORITY  
IN AID FOR THE CITY OF MINNEAPOLIS

WORKMENS COMPENSATION & LIABILITY ONLY

This is to certify that the following policies, subject to their terms, conditions and exclusions, have been issued by the named companies:  
Project 312 Loan and 115 Grant Program Location: Minneapolis, Minnesota

Insured: \_\_\_\_\_ Address \_\_\_\_\_  
(Contracting Company)

I. WORKMENS COMPENSATION:

Policy No. \_\_\_\_\_ Inception Date \_\_\_\_\_ Expiration Date \_\_\_\_\_

Insuring Company \_\_\_\_\_ Address \_\_\_\_\_

Agent \_\_\_\_\_ Address \_\_\_\_\_

Coverage-Workmens Compensation, Statutory, Employer's Liability Limits \$ \_\_\_\_\_

Location covered \_\_\_\_\_

Exceptions, if any \_\_\_\_\_

II. PUBLIC LIABILITY

Policy No. \_\_\_\_\_ Inception Date \_\_\_\_\_ Expiration Date \_\_\_\_\_

Insuring Company \_\_\_\_\_ Address \_\_\_\_\_

Agent \_\_\_\_\_ Address \_\_\_\_\_

Type of Policy: Combined Comprehensive General-Automobile Liability ( )  
Comprehensive Automobile Liability ( )  
Comprehensive General Liability ( )  
Schedule Non-Comprehensive Liability ( )  
Other than above \_\_\_\_\_ ( )

Limits of Liability:

|                           |           |                 |
|---------------------------|-----------|-----------------|
| Bodily Injury Liability   | \$100,000 | Each Person     |
|                           | \$200,000 | Each Occurrence |
|                           | \$200,000 | Each Accident   |
| Property Damage Liability | \$100,000 | Each Occurrence |
|                           | \$100,000 | Each Accident   |
|                           | \$100,000 | Aggregate       |

Coverage provided (check applicable square):

|   |      |      |
|---|------|------|
| Operations of Contractor  | Yes  | No   |
| Operations of subcontractor (contingent)  | ( )* | ( )* |
| Products Liability (including completed operations)   | ( )* | ( )* |
| Contractual Liability to include coverage for the hold harmless and indemnification agreement between the insured and the building owner, for the benefit of the Housing and Redevelopment Authority and the building owner, as contained in the contractor's bid form specified for this program, not withstanding any third-party beneficiary exclusion in the policy | ( )* | ( )* |

Dated \_\_\_\_\_ Authorized Insurance Representative \_\_\_\_\_

III. AUTOMOBILE LIABILITY:

Policy No. \_\_\_\_\_ Inception Date \_\_\_\_\_ Expiration Date \_\_\_\_\_

Insuring Company \_\_\_\_\_ Address \_\_\_\_\_

Agent \_\_\_\_\_ Address \_\_\_\_\_

Limit of Liability:

|                         |                                |
|-------------------------|--------------------------------|
| Bodily Injury Liability | <u>\$100,000 Each Person</u>   |
|                         | <u>\$200,000 Each Accident</u> |
| Property Damage         | <u>\$ 50,000 Each Accident</u> |

Coverage is provided for operation of all owned vehicles Yes ( )\* No ( )\*

Coverage is provided for operation of all non-owned vehicles Yes ( )\* No ( )\*

Coverage is provided for operation of all hired vehicles Yes ( )\* No ( )\*

In the event of cancellation or any material change in the above policies, ten days prior notice will be given to the Housing and Redevelopment Authority in and for the City of Minneapolis.

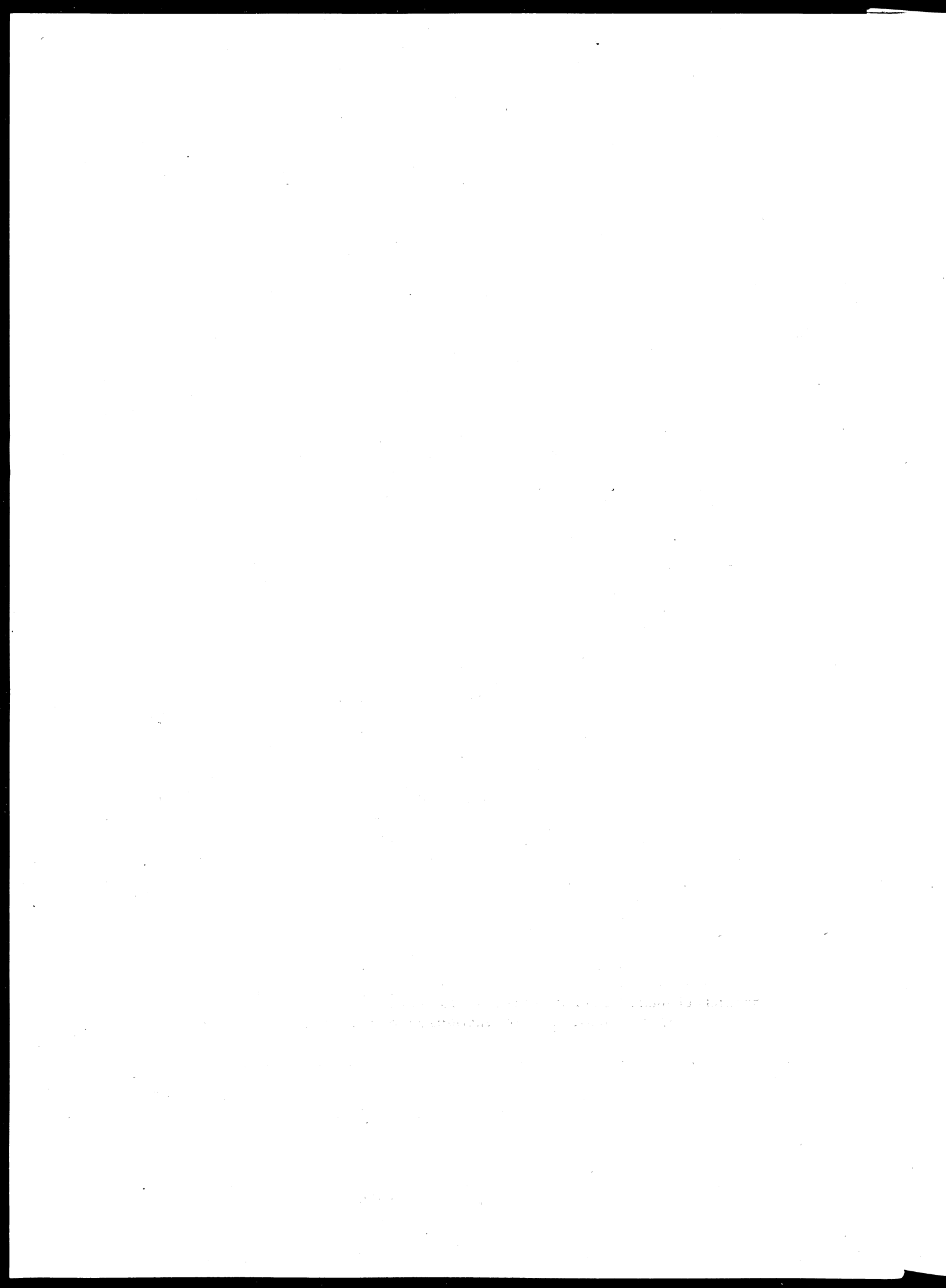
Dated at \_\_\_\_\_ on \_\_\_\_\_

By \_\_\_\_\_  
Authorized Insurance Company  
Representative

\_\_\_\_\_  
Agent's Telephone Number

\*Note to insurance company or agent:

The contractor's contract requires that his insurance company certify in the affirmative to each of these coverage questions. Therefore, all coverage items listed on both page one and two must be marked affirmatively without exception if the contract is to qualify.



THE ST. PAUL HOUSING REHABILITATION  
LOAN AND GRANT PROGRAM<sup>1</sup>

Julia A. Nutter

"Blight" is a botanical metaphor describing social, economic and physical factors which, when sufficiently concentrated in space and time, bring a building or a neighborhood closer to slum conditions.<sup>2</sup> Property owners may contribute to blight by their inability or unwillingness to invest in new structures or in the maintenance of existing ones.<sup>3</sup>

Supporters of the recently conceived, yet to be implemented St. Paul Housing Rehabilitation Loan and Grant Program hope to attack blight by geographically concentrating financial assistance to owner-occupants who are willing but otherwise unable to maintain or renovate their homes. The following paragraphs describe (1) the events leading to the program's conception, (2) the program itself, and (3) the potential for program evaluation. The information comes from sources and statements available as of January 22, 1975.

Pre-Program History

In the years following 1963, the St. Paul Housing and Redevelopment Authority (HRA) received more than \$90 million from the U.S. Department of Housing and Urban Development. The HRA allocated the monies to officially designated parts of the city for urban renewal, neighborhood development programs, and intensive code enforcement programs. The state legislature authorized the City of St. Paul to sell more than \$33 million in general obligation bonds for renewal over the same time period.<sup>4</sup>

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<sup>1</sup>Though not specifically named elsewhere in this report, Al Block and Curtis Miller, staff members of the St. Paul Housing and Redevelopment Authority, were helpful sources of information.

<sup>2</sup>Abrams, Charles, The Language of Cities (Viking Press: New York, 1971), p. 25.

<sup>3</sup>Sloan, H.S., and A. J. Zurcher, Dictionary of Economics (Barnes and Noble: New York, 1970), Fifth Edition, p. 39.

<sup>4</sup>St. Paul Dispatch, April 18, 1974, p. 34.

In the early 1970's, the large amounts of federal money available to the HRA began to decline. First, the Nixon administration announced in 1972 that it would impound monies available for HUD programs 235 and 236. (See Appendix 1 for program descriptions.) The administration quoted a HUD-sponsored report, "Housing in the Seventies," to support its charges against the two programs.<sup>5</sup>

Then, President Nixon submitted to Congress a budget for the latter half of fiscal year 1973 which significantly expanded the moratorium umbrella. The broadened moratorium suspended funding for Section 235 and 236 mortgage interest rate subsidies, for HUD non-profit sponsor assistance, for rent supplements, and for public housing. The suspensions were effective January 5, 1973. The expanded moratorium also terminated funding for four HUD community development programs -- rehabilitation loans, Model Cities, neighborhood facilities, and urban renewal -- effective June 30, 1973.<sup>6</sup>

Though some of the impounded monies were eventually released, St. Paul officials found it necessary to request added assistance from the state legislature. In 1973, the legislature authorized the sale of \$12 million in bonds by the city to finance local housing programs until the U.S. Congress could pass new, comprehensive housing legislation. The state legislators earmarked \$10 million for renewal purposes. They set aside \$2 million for rehabilitation loans due to a growing preference at the local level for more rehabilitation and less demolition.<sup>7</sup> However, the language of the 1973 legislation evidently prevented St. Paul's bond counsel from approving the sale of the \$2 million in rehabilitation bonds.<sup>8</sup>

In 1974, St. Paul officials again requested bond authorization from the state legislature for housing rehabilitation. On March 28, 1974, the legislature enacted Chapter 351, thereby allowing the City of St. Paul to legally issue \$3 million in general obligation bonds for a housing rehabilitation loan and grant program.<sup>9</sup>

<sup>5</sup>McCahill, Ed, "Housing in the Seventies," Planning, Vol. 41, (November, 1974), p. 19. The Washington Post later charged the administration with renouncing the program and then authorizing the writing of the unfavorable HUD report.

<sup>6</sup>National Housing Conference, Resolutions Relating to President's Impoundments, Suspensions and Terminations of Housing and Community Development Programs (March 5, 1973).

<sup>7</sup>St. Paul Dispatch, op. cit.

<sup>8</sup>St. Paul Dispatch, May 9, 1974, p. 8. See also Chapter 395, Section 4, Laws of Minnesota for 1973, p. 867.

<sup>9</sup>Chapter 351, Laws of Minnesota for 1974, pp. 600-601.

Subsequently, the Mayor of St. Paul submitted to the City Council rehab program guidelines that had been authored largely by HRA staff, City Planning Department staff, and local citizens. After largely favorable testimony at a public hearing on November 21, 1974, the City Council passed a resolution adopting the guidelines. The guidelines set forth program procedures and named the HRA as the program administrator. The resolution also permits the City Director of Finance and Management Services to sell half of the \$3 million in bonds authorized by Chapter 351.<sup>10</sup>

Bond sales were scheduled to begin in late January 1975, or shortly thereafter. The HRA staff will hold more hearings (probably before March 1) to hear additional public opinion about the geographic allocation of program resources and other operating procedures. The staff has tentatively set April 1 as the first day of program operation.<sup>11</sup>

If implemented in its currently proposed form, the St. Paul Housing Rehabilitation Loan and Grant Program will closely resemble the two HUD programs it will replace -- Section 312 of the 1964 Housing Act, which provides rehabilitation loans, and Section 115 of the 1965 Housing Act, which provides rehabilitation grants.<sup>12</sup> (See Appendix 1.) Similarities include the exclusion of absentee landlords, a maximum loan size of \$17,400, a preference for code enforcement improvements, and an emphasis upon geographically concentrated rehabilitation.

Yet, important differences between the new St. Paul and the older federal programs exist. The new program, unlike 312 and 115, excludes commercial buildings, allows more generous income ceilings in defining eligible applicants, permits somewhat larger grants, allows non-code improvements in certain circumstances, and allocates city-wide a substantial share of program resources.

#### Program Description

There are three principal features of the proposed St. Paul rehab program -- eligibility criteria, financing methods and sources, and the tentatively proposed geographic allocation of funds.

<sup>10</sup>City of St. Paul, Council Resolution No. 264640 (November 21, 1974). Copies of hearing testimony, ordinances, resolutions and the Proposed Program Concept and Guidelines are kept at the City Clerk's office. Both favorable and unfavorable testimonies are on record.

<sup>11</sup>St. Paul HRA, Staff Report to the Commissioners Regarding Status of City-Wide Rehabilitation (January 13, 1975).

<sup>12</sup>Warren Frost, head of the HRA Rehabilitation Section, maintains status reports for the 312 and 115 programs. As of December 31, 1974, the St. Paul HRA had 1,669 loans and grants either completed or in process. The average 312 loan administered between January 7, 1969, and August 31, 1974, amounted to \$5,133; the mean 115 grant equalled \$3,215.



### Eligibility

Not all applicants and properties will be eligible. The guidelines restrict eligible applicants to fee owner-occupants and contract-for-deed purchaser-occupants of residential properties. Loan recipients must be acceptable credit risks according to criteria to be developed by the HRA or its designee. Both loan and grant recipients must be unable to secure rehabilitation money from other sources.

Although adult residents of cooperatively-or communally-owned homes may receive loans or grants, few will actually be eligible. The guidelines state that (1) "non-blood related adults and tenant cooperatives" shall be treated as families and (2) household income shall include the income of each family member residing there. These provisions could effectively bring many cooperative or commune incomes above the allowed income ceilings (Appendix 2), but the guideline authors may not have anticipated or intended the probable effect.

The St. Paul program, unlike the Minneapolis program, does not recognize non-profit organizations or absentee landlords as eligible applicants. The rationale behind non-profit organization exclusion is unclear. The absentee landlord exclusion, on the other hand, is a federal program carry-over intended to stem the "slum landlord" process.

Ironically, excluding non-resident owners from mortgage funding might encourage slum conditions more than it abates or prevents them. In one HUD-sponsored survey, rental property owners in "blighted" areas of ten U.S. cities reported neighborhood deterioration, difficult-to-obtain financing, and inability to raise rents, in that order, as the major obstacles to rehabilitation of their buildings. For nonblighted or transitional areas, difficult-to-obtain financing ranked as the most important obstacle to rental property rehabilitation.<sup>13</sup>

In another HUD-contracted study, researchers discovered that resident and non-resident property owners in nine U.S. cities together perceived financing availability, neighborhood conditions, and zoning laws, in that order, as the three most important factors influencing their decisions to invest in either new construction or major rehabilitation.<sup>14</sup> In yet another HUD-financed study,

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<sup>13</sup> Arthur D. Little, Inc., A Study of Property Taxes and Urban Blight (U.S. Government Printing Office: Washington, January 1973).

<sup>14</sup> Price Waterhouse and Company, A Study of the Effects of Real Estate Property Tax Incentive Programs Upon Property Rehabilitation and New Construction (U.S. Government Printing Office: Washington, 1973).

researchers asked communities with code enforcement programs to list problems impeding effective implementation of their programs. Inability of owners to afford repair costs or inability of tenants to afford the rent increases necessary to cover repair costs was mentioned with second most frequency, while resistance from owners and tenants able to afford repair costs or rent increases only ranked fifth among the problems cited.<sup>15</sup>

The purpose of excluding all non-resident landlords is perhaps justifiably, to exclude absentee owners who are financially able to improve their properties but refuse to do so. The probably unintended consequence is to punish non-profit organizations that would spend time in rehabilitating properties if someone else would finance all or part of the cost, absentee owners who are willing but financially unable to rehabilitate their buildings and, most importantly, renters having the misfortune to live in properties which, while needing repair, are owned by ineligible persons.

Though neighborhoods are not eligible applicants per se, residents in a cooperative neighborhood improvement group may file individual applications more or less simultaneously. The guidelines omit specific references to joint applications or joint contracting for repair work by neighborhoods or blocks. But Appendix 1 to the guidelines does say, "It is understood that organized projects for which funds are reserved under the city program need not constitute the entire range of locally-organized rehabilitation activity. Residents are encouraged to work cooperatively in whatever way they find feasible and appropriate to achieve neighborhood improvement, making use of available loan and grant assistance."

The proposed guidelines restrict eligible properties to residential structures at least ten years old or damaged by a natural disaster. Properties already identified for public acquisition will usually not be eligible. Also, officials must give preference to buildings with serious, but correctable code violations. Grants may be given only for buildings having "immediate health and safety hazards."

Though the guidelines say both single-family homes and multi-family structures of eight units or less are eligible, Chapter 351 of the 1974 Minnesota Laws maintains that single-family homes must receive greatest preference in the allocation of grants. Chapter 351 does not mention extending similar preference to the allocation of loans, but the income computation procedures set forth by the guidelines will result in such an extension.

When program administrators determine applicants' eligibility for

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<sup>15</sup> Schretter, Howard A., Yesterday's Houses (U.S. Government Printing Office: Washington, 1972).

loans by computing the household's gross adjusted annual income, they must make allowances for household size. But, though they must include the income earned from rental property for which the owner-occupant seeks rehabilitation financing, they may not deduct these annual costs attributable solely to the rented portion of the building: property maintenance and operation costs (like paint, water and sewer charges, heating and simple repairs), property taxes, interest paid on mortgages for the property principal, and interest paid on mortgages incurred for capital improvements since the property was purchased.<sup>16</sup>

The computation procedures for loans were supposedly constructed to favor single-family buildings occupied by large households and to disfavor multi-family buildings where the owner-occupants have large, refinancable equities in the properties. However, the procedures as currently stated could conceivably result in favored treatment of larger equity owners, even some with higher spendable incomes. The following hypothetical situation shows how.

A year ago Household A saved enough money to pay \$1,000 down for a \$16,000 duplex, with the principal to be repaid to a mortgage vendor over the next twenty years at an 8 percent annual interest rate. Most of the \$165 Household A pays to the vendor each month is used for interest with the remainder allotted to an insurance/property tax escrow and to decreasing the unpaid principal. Shortly after buying the duplex, Household A incurred a \$300 home improvement loan to pay for new kitchen plumbing and a new kitchen sink in the rented part of the duplex. Household A occupies the unrented half of the property.

A year has passed. After subtracting expenses (other than depreciation and the kitchen improvements) solely attributable to the renter-occupied portion of the duplex from the rent paid by its tenants, Household A finds it has received a \$500 net return.<sup>17</sup> (See Table 1 for expenses and income.) The bathroom plumbing in the rented part of the duplex violates the city housing code and is seriously deteriorated. The duplex roof leaks badly. Household A plans to replace the roof itself to reduce costs. Even with the "sweat equity" of Household A, improving both the roof and the bathroom will cost \$1,000. Household A plans to use its \$500 net return for half the

<sup>16</sup>The gross adjusted annual income as defined by the St. Paul program guidelines differs greatly from the U.S. Internal Revenue Service definition for 1974 for this reason. Federal rules also allow depreciation as a deductible expense. See Appendix 2 to this report for program gross adjusted income ceilings adapted to household size.

<sup>17</sup>Household A decided not to include depreciation and the capital improvements as expenses, reasoning that the former is not a real expense in times of inflation and the latter adds to the value of the duplex an amount equal to its cost.

TABLE 1.--FIRST YEAR INCOME AND EXPENSES ATTRIBUTABLE TO THE RENTED PORTION OF HOUSEHOLD A's DUPLEX (Figures are approximate)

| Category  | Amount          |
|---|-----------------|
| <u>Gross Income:</u>  | \$ 1,800        |
| . Rent received (\$150/month for two bedroom unit occupied by a three-member family)  | \$1,800         |
| <u>Basic Expenses:</u>  | \$ 1,300        |
| (Excludes amortization of the building and recent capital improvements)   |                 |
| . Half of interest due on balance of property principal (@ 8% for \$15,000 balance)   | 600             |
| . Half of duplex's fire/liability insurance   | 60              |
| . Half of duplex's property taxes (homestead exemptions apply)  | 150             |
| . Interest due on home improvement loan (@ 10% for \$300 balance)   | 30              |
| . Oil for furnace   | 150             |
| . Gas for stove, clothes dryer and water heater   | 100             |
| . Water and sewer charges   | 90              |
| . Paint and minor repairs   | 120             |
| . Electricity   |                 |
| . Telephone   | Paid by tenants |
| . Garbage collection  |                 |
| <u>Depreciation (for income tax purposes):</u>  | \$ 415          |
| . Of \$300 in capital improvements and half of the \$16,000 duplex purchase price (Assuming a 25-year life and no salvage value; using the 125% declining balance method) | \$ 415          |

cost, but needs another \$500 in loans to pay for the rest of the planned improvements. Private loan sources refuse to provide the needed amount until Household A pays back its first improvement loan, saying that Household A's heavy indebtedness and relatively low income make it a poor credit risk. As a final resort, Household A applies to the St. Paul rehab program for a loan.

Household B, on the other hand, inherited a house several years ago that is now valued at \$14,000. This property also has a badly leaking roof (but no other housing code violations) which, even with sweat equity, will cost \$500 to replace. Private sources refuse to give Household B a loan for the improvement due to the household's failure to repay two loans about fifteen years ago when it was unemployed. Household B also applies to the St. Paul rehab program for a loan.

Household A makes \$6,500 annually in non-rental income. Household B makes \$7,500 annually, all of it non-rental income. Both households have one member. After deciding that Household A and B's inability to procure loans from private sources can be explained by extenuating circumstances rather than poor behavior on the part of the households, program officials agree to provide A and B each with a \$500 loan.

Following this decision, the officials determine the interest rate for each loan by calculating the gross adjusted income for each household. According to the guidelines, a 5 percent deduction from the base income can be made for each household. With one non-elderly household member and no medical or unusual expenses, the gross adjusted income will thus equal 0.95 times the base. Program officials calculate Household B's gross adjusted income as equalling \$7,125 (0.95 times \$7,500). Since they must include rental income but may not deduct even the least questionable rental expense, the officials calculate Household A's gross adjusted income as equalling \$7,885 (0.95 times \$8,300). Household B is thereby given a loan at the low interest rate and Household A is given a loan at the middle interest rate.<sup>18</sup>

Households A and B are fairly well-acquainted neighbors. When A discovered that B had received a lower interest rate, A felt unfairly treated on a number of counts. To begin with, B's equity of \$14,000 far exceeded A's equity of \$2,964 (See Table 2). Secondly, B paid \$300 in cash for a new canoe and \$1,000 toward a new motorboat about the same time A forewent such luxuries in order

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<sup>18</sup>If Household A's housing expenses exceeded 25% of its gross adjusted income, its interest rate could be lowered to the same level as Household B's. As it is, the housing expenses attributable solely to Household A include half of the duplex amortization in Table 2 plus, since both halves of the duplex are about the same, an amount equal to the basic expenses shown in Table 1 plus the interest and gradual amortization of the \$500 rehab loan. The expenses will only comprise about 20 or 21% of Household A's gross adjusted income.

TABLE 2.--EQUITY ACCUMULATED BY HOUSEHOLD A

| Category   | Amount   |
|--|----------|
| . Duplex downpayment   | \$ 1,000 |
| . Amortization (\$30/month toward principal balance)                   | 360      |
| . Capital improvements for kitchen                                     | 300      |
| . Inflation in value of the duplex and the capital improvements (@ 8%) | 1,304    |
|  | <hr/>    |
|  | \$ 2,964 |

to pay \$1,000 down for its duplex and incur a \$300 home improvement loan. It seemed to A that the program was rewarding B for investing in and improving housing stock, even though the program goals are housing- and not recreation-related. Thirdly, at the time the rehab loans were granted, B's non-rental employment paid \$1,000 more per year than A's non-rental employment. Moreover, if both rental income and basic rental expenses are considered, B's spendable income is still about \$500 larger than A's.

What was Household B's reaction to receiving a lower interest than Household A received? Household B advised the latter to forget its troubles by spending the \$500 profit from its duplex on a vacation instead of improvements for the tenant's bathroom. Household A is seriously considering Household B's advice.

To avoid unfair and perhaps counterproductive situations like the preceding one, the eligibility provisions of the program guidelines should be changed. If program supporters truly wish to favor properties where the owner has a small equity more so than those having owners with large equities, they should ask city officials to include equity as a specific criteria in setting income ceilings for eligible applicants, preferably in the same manner as the household size criteria. If supporters wish to eliminate the unnecessary penalization of property owners who chose to buy and live in a small, multi-family building rather than a single-family structure, they should also ask city officials to allow, as deductible exemptions from gross adjusted income, rental expenses other than principal amortization, depreciation, and capital improvements.

### Financing

The guidelines define financing procedures in some detail. Officials will base the size of rehabilitation loans upon the cost of improvement work, the estimated market value of the property after improvements, and the size of debts presently secured by the property. Secured loans (loans where the property owner, contract-for-deed vendor or contract-for-deed vendee gives the HRA a lien on property in which they have complete or partial equity to protect the HRA from potential default losses) may not exceed \$17,400; unsecured rehabilitation loans must be \$3,500 or less. Refinancing from program bond monies will sometimes be permitted as a way of securing contract-for-deed properties. However, Minnesota Housing Finance Agency (MHFA) funds will be the source of most refinancing.

Grant sizes will depend upon the cost of eligible improvements and the proportion, if any, of the costs to be covered by loans. Grants may not exceed \$5,000 in any case.

A principal financing source for the program consists of the \$3 million in general obligation bonds which the 1974 state legislature

authorized the city to sell. City officials, as mentioned earlier, plan to sell half of the authorized amount soon, if they have not already done so.

St. Paul probably can sell its bonds at reasonable interest rates in the near future, unlike the MHFA. Revenues and assets of the MHFA program will pay the interest due its bond holders. Property taxes will pay the interest due upon St. Paul general obligation bonds. Since the risk of not receiving interest payments earned tends to be greater for revenue than general obligation bonds, bond buyers will usually bid or accept a lower interest rate for the latter in return for their reduced risk.

Uses of St. Paul's bond money may include: (1) subsidizing the difference between interest rates paid by the HRA to financial institutions and the interest rates eligible applicants receive through the program for the "leveraged" loans, (2) providing loan principals to eligible applicants if and when loan money leveraged from private financial institutions and the MHFA is unavailable, (3) covering loan defaults, (4) granting free improvement money to applicants with already heavy debt burdens and very low incomes, and (5) administering the program. (Leveraged loan money refers to funds borrowed by the HRA from financial institutions and subsequently reloaned to program applicants.)

The first use is a crucial one. If the interest rates bid for the bonds do not exceed HRA expectations, program administrators will charge recipients of "low," "low-moderate," and "moderate" income loans interests of 4, 6 and 8 percent, respectively. The interest rate subsidy for loans leveraged from private institutions and the MHFA may not surpass 2 percent. For instance, if a commercial bank, with the approval of program administrators, loans money to the HRA for 6 percent interest loans, the HRA could pay the bank up to 8 percent in yearly interest.

Under certain circumstances, private institutions might refuse to loan money to the HRA for the 4 percent loans. If (1) the maximum 6 percent interest rate payable by the HRA to an institution is significantly less than market interest rates for loans not affected by 8 percent usury limits and (2) profits accruing to the institution when it lends at market interest rates surpass tax benefits accruing when a loan at less than market interest is made to a public corporation like the HRA, then the source of 4 percent rehab loan principals will probably be program bond monies.

St. Paul hopes to leverage \$4 million in loans from private institutions and the MHFA for rehabilitation loan applicants.<sup>19</sup>

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<sup>19</sup> Mayor Larry Cohen, testimony to the St. Paul City Council Hearing on the proposed rehabilitation loan and grant program, November 21, 1974.



The Mayor of St. Paul estimates that about 1,000 loans could be generated from the leveraged and bond monies.<sup>20</sup> Assuming the HRA Executive Director correctly estimated an average loan size of \$6,000,<sup>21</sup> the leveraged money will finance about 670 loans and the bonds will finance about 330 of the 1,000 loans projected by Mayor Cohen.

Thus far, small commercial banks seem more willing to provide loan money for the program than are relatively large banks. Savings and loan institutions seem least willing to participate in the leveraging aspect of the program, chiefly because they feel the subsidized interest rates yielded by program loans are too small.<sup>22</sup> Leveraging participation by the MHFA is uncertain. The agency has experienced difficulty in selling its revenue bonds at an interest rate low enough to allow the agency to in turn finance loans complying with the state usury limits on interest rates.<sup>23</sup> The prime interest rate has been declining, but is still too high to allow the MHFA to sell at a sufficiently low interest rate.

Program bond monies will also pay for loan defaults. Contracts negotiated between city officials and participating financial institutions will list the circumstances under which program bond monies will pay for leveraged loan defaults. Guideline authors evidently expect the default rate for leveraged and bond-financed loans to be 6 percent or less, since an amount equalling no more than 6 percent of such loans must be set aside from the bond money for default purposes.

Bond money will supply up to \$150,000 for a fourth purpose -- rehabilitation grants. The Executive Director of the HRA feels that most grantees will receive the full \$5,000 grant, largely because the rehabilitation needs of eligible properties usually exceed the maximum allowable grant amount.<sup>24</sup> Assuming this to be true, only 30 grants will be financed by program bond monies.

The enabling legislation for the rehabilitation loan and grant program in St. Paul specifies, as does the enabling legislation for the Minneapolis program, that only 5 percent of the bond money sold may be allocated to grants. After finding a much

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<sup>20</sup> Ibid.

<sup>21</sup> Helfeld, E.N., Report to Members of the City Planning Steering Committee for Community Development, Past and Future Rehabilitation Activities, January 6, 1975.

<sup>22</sup> Hozza, David, St. Paul City Council member, interview on January 16, 1975.

<sup>23</sup> See the report on the MHFA which follows for further details.

<sup>24</sup> Helfeld, E. N., op. cit.

larger demand for grants among its program applicants, Minneapolis decided to ask the 1975 state legislature to allow use of one-fourth of the bond money for grants. Since St. Paul will receive more community development funds over the next year than will Minneapolis, St. Paul officials could have more community development dollars to expand the number of grant recipients than Minneapolis will have. Consequently, St. Paul will probably not request expanded use of bond money for grants.<sup>25</sup>

Using simple arithmetic to manipulate figures given in paragraphs preceding the last, we find that the city plans to allocate about 67 percent of the \$3 million generated by bond sales to loans. Around 12 percent will go to loan default reserves, 5 percent to grants, and the remaining 16 percent to interest subsidies and administrative costs.

Distributing 1,030 loans and grants over at least 10,000 owner-occupied, rehabilitable units<sup>26</sup> will effect no more than 10 percent of city properties eligible under the program. However, fund sources other than the \$7 million in bond and leveraged money might be available to help "[a]chieve substantial, visible improvement sufficient to strengthen neighborhood stability and encourage continuing private reinvestment in residential areas" and other program goals cited in the guidelines and Chapter 351.

Funds "reserved" from the MHFA will be one source of additional funding.<sup>27</sup> Other possible sources include unspent Section 312 funds; the \$2 million in bonds authorized by the 1973 legislature; loans generally available from FHA, VA and other private market sources; and the Community Development block grants.<sup>28</sup>

More specifically, the bond sale difficulties of the MHFA have already been briefly described. Section 312 funds will be restricted to neighborhood development programs and other areas specially designated for federal assistance in the past. Availability of the \$2 million in bonds will depend upon the 1975 legislature changing the language of the 1973 authorizing legislation. In previous years, the HRA was very instrumental in getting private market sources to supplement the rehabilitation

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<sup>25</sup> Hozza, David, *op. cit.*

<sup>26</sup> City of St. Paul submission to HUD, "Survey of Housing Conditions," in Housing Assistance Plan, January 3, 1975. In a windshield survey of 60 percent of city dwelling units, the HRA found 21,132 dwelling units that were substandard, yet suitable for rehabilitation. Slightly less than half the units are owner-occupied. The city dwelling units not surveyed were in areas least likely to possess concentrations of rehabilitable units, though such units may be scattered throughout the unsurveyed areas.

<sup>27</sup> The distinction the guidelines draw between monies "leveraged" from the MHFA and those "reserved" from the agency is ambiguous. Evidently, some leveraged money will be available city-wide whereas reserved money will be available only for certain parts of the city.

<sup>28</sup> Helfeld, E.N., *op. cit.*

loan supply in areas receiving Section 312 and 115 assistance.<sup>29</sup> If the HRA can repeat its past success in "loansmanship" and if neighborhood and city-wide citizen organizations also look for private rehabilitation sources, the loan money leveraged from private institutions could possibly exceed \$4 million. An estimated \$400,000 in rehabilitation grants for neighborhood development program areas and \$200,000 in rehabilitation loans to be available city-wide will come from the Community Development block grant. In addition, \$600,000 of the new rehabilitation program's administrative costs will come from that source.<sup>30</sup>

### Geographic Allocation

The City-wide Rehabilitation Task Force for the St. Paul Housing Rehabilitation Loan and Grant Program recommends this geographic allocation of loan and grant monies: 60 percent to Concentrated Rehabilitation Projects (CRP's) within six Priority Rehabilitation Areas (PRA's) and 40 percent to parts of the city outside PRA's (Figure 1).<sup>31</sup> During the first year of the program (measured from the time when formal application processing begins), equal amounts of loan and grant money will be reserved for each PRA.<sup>32</sup> If half of the \$7 million in leveraged money and 1974 legislature-authorized bonds is available during the first program year, each PRA could receive about 50 loans and perhaps one grant over the initial twelve months.

The HRA will recognize a "sponsoring" neighborhood group for each PRA. Sponsoring groups chosen will probably consist of those demonstrably initiating local participation in the program with the aid of the HRA staff. The HRA will enter into an individualized, written contract with each sponsoring group. Contracts will specify how and what the two parties shall report to each other, other responsibilities of each party, grievance procedures for loan and grant recipients, and a job description for the community organizer position attached to each PRA.<sup>33</sup>

<sup>29</sup>Frost, Warren, op. cit. According to 312 and 115 status reports, the HRA leveraged 2,091 loans from private sources as of December 31, 1974.

<sup>30</sup>Ford, Kent, City Planning Department, interview on January 10, 1974.

<sup>31</sup>City-wide Rehabilitation Task Force, Planning Department staff and HRA staff, Rehabilitation Plan: For St. Paul Rehabilitation Loan and Grant Program, draft version, January 22, 1975. This is the "Neighborhood Rehabilitation Program" which guidelines specify must be submitted and, in a revised version, annually resubmitted to the City Council by the Planning Commission.

<sup>32</sup>Ibid.

<sup>33</sup>Ibid.

The City Planning Department and the community organizers will probably assist the sponsoring groups and area residents in developing the Neighborhood Project Plans required by the guidelines. The plans specify potential CRP's within the PRA's. If the quarterly reviews of PRA's made by the yet-to-be appointed City-wide Rehabilitation Advisory Committee<sup>34</sup> or the annual review by the City Planning Department staff find that a PRA has failed to submit an adequate plan having strong community support within the first year of program implementation, the loan and grant funds initially reserved for the PRA may be transferred to other existing or newly-designated PRA's.<sup>35</sup> Failure to fulfill the terms of the HRA/sponsoring group contract and other signs of ineffectiveness might also cause the withdrawal of concentrated rehabilitation funds allocated to a PRA.

The currently designated PRA sites shown in Figure 1 were chosen because: (1) they excluded areas currently or previously eligible for federal rehabilitation loans and grants, (2) their placement should help ensure the stability of sound neighborhoods contiguous to them, (3) they possessed high numbers and dense concentrations of eligible applicants (that is, owner-occupants falling within specified income limits) and the most eligible properties (that is, single-family buildings which are sub-standard but could benefit from rehabilitation), and (4) they are sufficiently diverse so that the Planning Department, in its annual evaluation, can determine which neighborhood types benefit the most from this sort of program. Six sites were chosen because HRA staff numbers will not be sufficient to handle a larger number during the first year of program operation.<sup>36</sup>

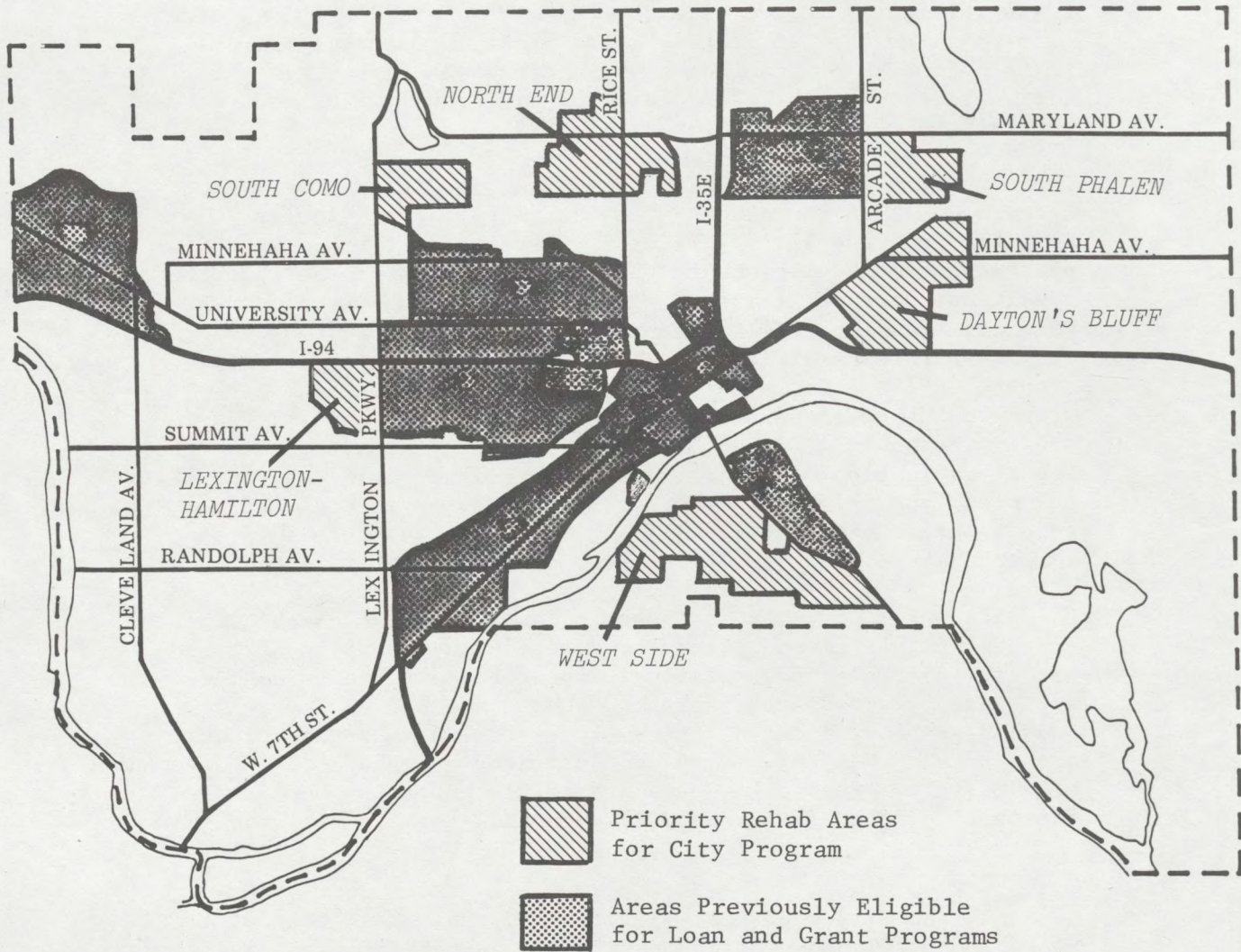
CRP sites will probably be chosen because of these characteristics: (1) highly interested or committed residents along the affected blocks, (2) high concentrations of eligible applicants and structures, (3) adjacent neighborhoods are sound or physical boundaries protect the affected blocks from neighboring blighted areas not in the program, (4) demonstrated neighborhood improvement efforts, (5) potential to demonstrate the benefits of rehabilitation to neighboring areas, (6) potential for a public capital

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<sup>34</sup>The City-wide Rehabilitation Advisory Committee will replace the previously mentioned City-wide Rehabilitation Task Force. Appointed by the Mayor and City Council (both of whom will be assisted in their choices by the HRA), the new committee will probably include two citizens-at-large and a number of seats filled by representatives of the financial sector, the construction sector, the city government, and specified neighborhood and city-wide organizations.

<sup>35</sup>Draft Neighborhood Rehabilitation Program, op. cit.

<sup>36</sup>Ibid.



PRIORITY REHAB AREAS FOR ST. PAUL NEIGHBORHOOD REHABILITATION PROGRAM

Source: St. Paul City Planning Department, January, 1975.

improvements program, and (7) the presence of institutional "anchors."<sup>37</sup>

Appendix 3 to this report excerpts that part of the program guidelines describing the steps taken by applicants when applying for and receiving program funds. For rehabilitation tasks not performed by sweat equity, the program recipient must select contractors mentioned on a list to be maintained by the HRA. That the listed contractors will be specially trained by the HRA in program rules and procedures is a strong plus. However, by forbidding the use of unlisted contractors, the guidelines may create an oligopolistic situation for the listed contractors. Officials should closely monitor this aspect of the program to ensure that contractors do not take advantage of the potentially oligopolistic circumstances by charging higher fees than they would otherwise.

#### Evaluation Potential

Feedback, monitoring, and other evaluation requirements have been included in the program guidelines and the working draft of the Neighborhood Rehabilitation Program. The City-wide Rehabilitation Advisory Committee and the City Planning Department will fill principal evaluation roles. The HRA will probably supply most of the data to be evaluated by the Advisory Committee and the Planning Department.

The most important evaluation question is suggested in the first part of this report: Will the St. Paul Rehabilitation Loan and Grant Program abate or prevent urban blight? Important sub-questions suggest themselves through the body of the report: (1) What kinds of neighborhoods most effectively use PRA's to stem urban blight? (2) Can successful CRP's interest adjacent residents and areas in rehabilitating their properties without program assistance? and (3) Does concentrated rehabilitation improve neighborhood stability and encourage private reinvestment more so than city-wide rehabilitation?

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<sup>37</sup> Ibid. Anchors may include such neighborhood focal points as schools, churches, and recreational centers.

Appendix 1

Governmental Rehabilitation Programs\*

| Programs                                   | Legislative Origin  | Description   |
|--|---|---|
| Title I<br>Home Improvement                | 1934 National Housing Act   | Insures loans made by private lenders to property owners who make home improvements in either single or multi-family dwellings.   |
| Title I<br>Urban Renewal<br>Rehabilitation | 1949 Housing Act as<br>Amended 1954   | Compensates either two-thirds or three-quarters of the eligible project costs incurred by the local public agency administering an urban renewal rehabilitation program. Eligible project costs include public improvements, surveying properties, and planning and implementing a code enforcement program.  |
| 203k-220h                                  | 1961 Housing Act  | Insures loans made by private lenders to property owners who make major improvements. Maximum loan amounts are \$12,000 per family unit (\$17,400 in high cost areas) with a term from 5 to 20 years with a 7.5 percent interest rate. The 203k and 220h programs differ only in that the latter can be used only in urban renewal areas.   |
| 312,115<br>Programs                        | The 312 and 115<br>programs were established<br>by the 1964 and 1965<br>Housing Acts respectively | Both programs can be used only by owners of properties in urban renewal or intensive code enforcement areas; or by owners of properties deemed uninsurable because of physical hazards after an inspection by a state FAIR plan. The 115 program grants up to \$3,500 to owner occupants with incomes of \$3,000 or less. Under the 312 program owner occupants of properties can obtain a \$12,000 loan per dwelling unit (\$17,400 in high cost areas) at a 3 percent interest rate and a maximum 20 year term. |

\*Exhibit 1-4 in The Dynamics of Housing Rehabilitation by David Listokin (Center for Urban Policy Research, Rutgers University and the State University of New Jersey, February 1973).

Appendix 1 (Continued)

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| Programs     |  |  |
|--------------|--|--|
| 235          | 1968 Housing Act   | The 235 program provides interest subsidies on loans to families with incomes not exceeding 135 percent of the limits prescribed for admission to local public housing for the purchase of new, existing or substantially rehabilitated houses. A federal interest subsidy reduces the effective mortgage interest paid by the moderate-income mortgagor to as low as one percent, but the mortgagor must pay 20 percent of his adjusted income for the mortgage payments. |
| 221h-235j    | The 221h and 235j programs were established by the Demonstration Cities and Metropolitan Development Act of 1966 and the 1968 Housing Act respectively. The 221h program has been phased out and has been replaced by the almost identical 235j program. | Direct below-market interest rate loans are made to nonprofit sponsors for purchasing and rehabilitating properties. The properties are then sold to families with the same income limits as in the 235 program who can obtain long term (up to 40 years) mortgages with an interest rate as low as one percent.   |
| 221d3<br>236 | The 221d3 and 236 programs were established by the 1961 and 1968 Housing Act respectively.   | Nonprofit or limited profit sponsors can obtain long term (up to 40 years) low interest rate mortgages (as low as one percent) for rehabilitating multi-family housing to house moderate income families.  |
| 106          | 1968 Housing Act   | Provides interest-free, seed money loans for nonprofit sponsors of new or rehabilitated housing for low or moderate income families to cover preconstruction costs involved in planning and obtaining financing for a proposed project. The loans are repayable when the permanent mortgage proceeds become available as the costs they cover are generally included in mortgage financing.  |



## Appendix 1 (Continued)

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| Programs                          |  |  |
|-----------------------------------|--|--|
| 502 504<br>Rural Housing<br>Loans | Title V of the 1949<br>Housing Act   | Both programs provide below market interest rate loans for the purchase or improvement of rural homes.   |
| State Programs                    | Many state programs encouraging both rehabilitation and new construction are effected by state housing finance agencies, many of which were established in the late 1960s. | <ol style="list-style-type: none"> <li>1. <u>Seed Money Loans</u><sup>1</sup><br/>Mass., New Jersey, Delaware, North Carolina, Maryland.</li> <li>2. <u>Construction Loans</u><sup>1</sup><br/>New York, Michigan, Illinois, Maine, Maryland.</li> <li>3. <u>Mortgage Loans</u><sup>1</sup><br/>New York, Massachusetts, Michigan, New Jersey, Illinois.</li> <li>4. <u>Acquire Properties for Resale to Housing Sponsors</u><sup>1</sup><br/>New Jersey, Delaware, Maryland, Hawaii.</li> </ol> |

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<sup>1</sup>Examples of states offering these programs.

- Sources: House of Representatives, Committee on Banking and Currency, Basic Laws and Authorities on Housing and Urban Development (Washington, D.C.: Government Printing Office, 1971).
- Housing and Urban Development "Dealer Guide to Property Improvement Loans" (Washington, D.C.: Government Printing Office, 1969).
- Robert Taggart III, Low Income Housing: A Critique of Federal Aid (Baltimore: The John Hopkins Press, 1970) p. 18-20.
- Robert Alexander, "Fifteen State Housing Finance Agencies in Review" Journal of Housing, January 1972, p. 9-17.

Appendix 2

Income Ceilings for Program Loans

Annual Adjusted Gross Household Income Categories

| <u>Family Size</u>      | <u>Low Interest<br/>Loan (4%)*<br/>(Low Income)</u> | <u>Middle Interest<br/>Loan (6%)*<br/>(Low-Moderate Income)</u> | <u>Upper Interest<br/>Loan (8%)*<br/>(Moderate Income)</u> |
|-------------------------|---|---|--|
| 1 person                | Up to \$ 7,200                                      | \$ 7,201 to \$13,650  | \$13,651 to \$14,500                                       |
| 2 persons               | " " 8,750   | 8,751 to 13,650   | 13,651 to 15,000   |
| 3 persons               | " " 10,000  | 10,001 to 13,950  | 13,951 to 15,500   |
| 4 persons               | " " 10,300  | 10,301 to 14,250  | 14,251 to 16,000   |
| 5 persons               | " " 11,850  | 11,851 to 14,550  | 14,551 to 16,500   |
| 6 persons               | " " 12,150  | 12,151 to 14,850  | 14,851 to 17,000   |
| 7 persons               | " " 12,500  | 12,501 to 15,150  | 15,151 to 17,500   |
| 8 persons               | " " 12,800  | 12,801 to 15,450  | 15,451 to 18,000   |
| 9 persons               | " " 13,100  | 13,101 to 15,750  | 15,751 to 18,500   |
| 10 persons<br>(or more) | " " 13,400  | 13,401 to 16,050  | 16,051 to 19,000   |

\*Tentative interest rates

Source: City of St. Paul, Planning Department, November 26, 1974.

Interested persons may wish to compare these categories to those for the Minneapolis rehab program listed on page 35. The following figures may assist any comparison:

|   | <u>St. Paul</u> | <u>Minneapolis</u> |
|---|-----------------|--------------------|
| 1969 Median family income   | \$10,536        | \$ 9,958           |
| 1974 Estimated median family income<br>(1969 figure adjusted for<br>earnings increase of 35%) | 14,225          | 13,445             |
| 1970 Mean household size  | 2.85            | 3.58               |

Appendix 3

## Typical Rehabilitation Loan Process

The purpose of this Appendix is to describe a "typical" case and the procedures to be followed for a homeowner to obtain a rehabilitation loan under the program guidelines that are outlined in the previous documents. Certain assumptions were made for purposes of describing this procedure. Those assumptions include the existence of a small "storefront" office in a neighborhood that has been identified and approved for a concentrated rehabilitation program. We further assumed the office is staffed with two rehabilitation advisors, a part-time community organizer and a part-time secretary. A rehabilitation loan officer would be located at a central administrative office.

The process would begin when the homeowner contacts the community organizer (or rehabilitation officer) at the site office. The contact may result from the homeowner obtaining information about the program at a rehabilitation "block party." During this initial meeting, the organizer would describe the general rules, procedures and guidelines of the city rehabilitation program, screen the homeowner for eligibility and attempt to determine the homeowner's interest in rehabilitating his property.

Assuming that positive interest and eligibility are established during the initial contact, the organizer would ask the homeowner to fill out a data sheet and schedule an inspection of the property by the full City Inspection Team. The data sheet would be forwarded to the rehabilitation loan officer for review and a further determination of eligibility of the homeowner to receive a loan. During this time, the City Inspection Team will have completed their work and prepared a written list of all code violations found on the property. A copy of the list would be sent to the homeowner and the rehabilitation advisor at the site office.

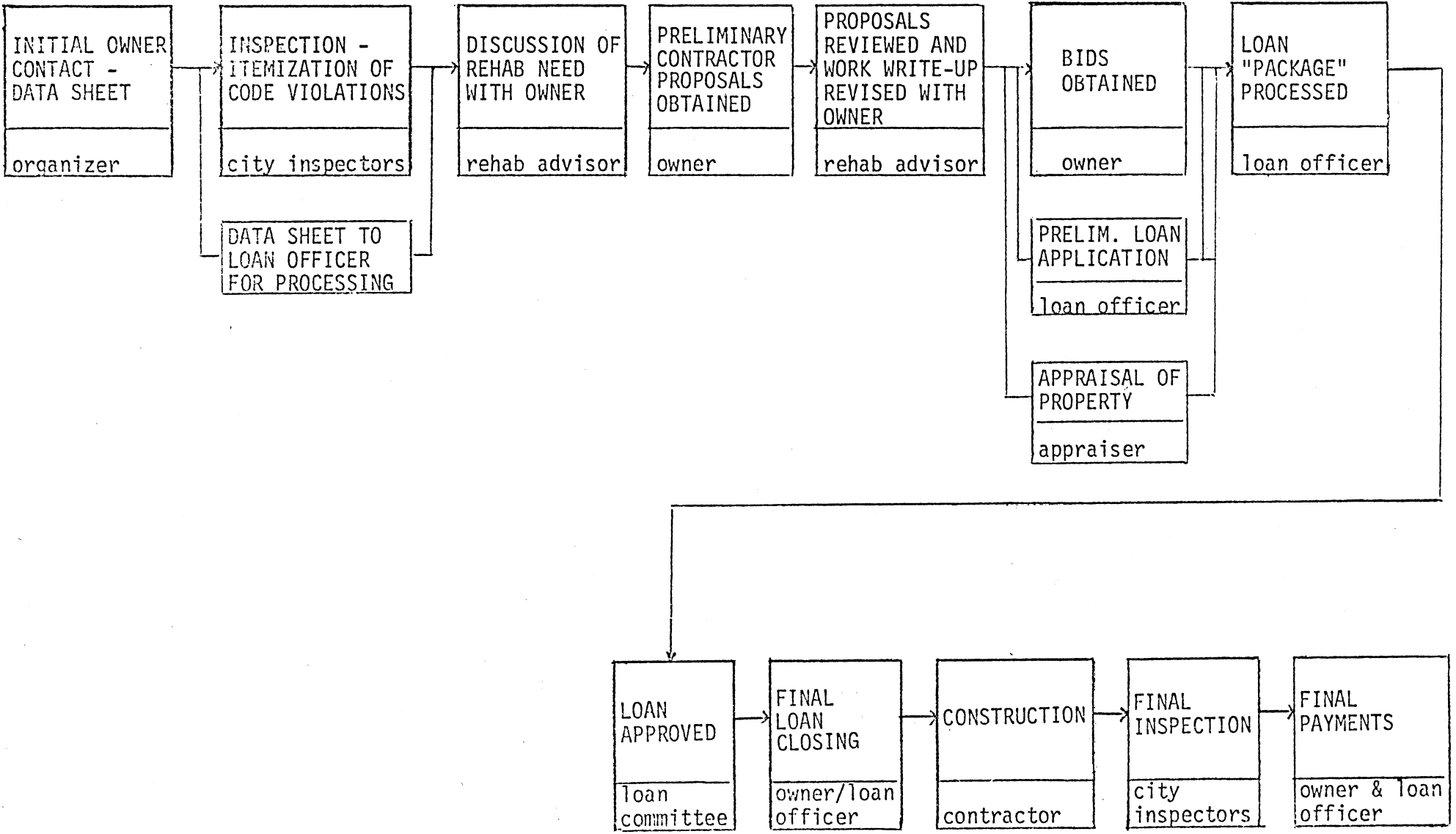
A meeting between the homeowner and the rehabilitation advisor would be the next step in the process. After determining the scope of general improvements desired by the homeowner and deciding which code items are to be corrected, the rehabilitation advisor will instruct the homeowner to have a contractor prepare a preliminary scope of work for bidding purpose. The homeowner would subsequently select an approved contractor and obtain an informal bid from him.

After receiving an informal bid, the homeowner would review the scope of work and cost with the rehabilitation advisor. Upon agreement by the homeowner to the final scope of work, the contractor's bid would be obtained by the homeowner. During the time that final bids are being prepared by the contractor, the

site office would fill out a preliminary loan application with the homeowner and the property would be appraised by an independent real estate appraiser. The "loan package" consisting of the final bids and scope of work, loan application, and appraisal are then delivered to the loan officer at a central location for processing. During this processing, the loan application would be reviewed and approved (denied) by a Special Rehabilitation Review Committee.

Assuming that the package is approved, a closing would be set between the homeowner and loan officer. Upon closing, the contractor will be issued an order to proceed with the work. During the construction work, the rehabilitation advisor will coordinate with the homeowner in monitoring progress. Completion of all construction work would be followed by a final inspection by a group consisting of the homeowner, City Inspectors, and the rehabilitation advisor. Items found not to be in compliance with city codes and the scope of work would be corrected prior to final payout to the contractor by the loan officer. Lien waivers will be obtained at the time of final payment. Partial payments may be arranged, if the term of construction is anticipated to be lengthy.

In order to provide you with a further understanding of the above process, a graphical presentation is provided on page 60. The Special Rehabilitation Committee referred to would be made up of city staff and representatives of the administrative agency designated by the City to implement the program.



THE MINNESOTA HOUSING FINANCE AGENCY  
REHABILITATION LOAN PROGRAM

Kathleen A. Gilder

The Minnesota Housing Finance Agency (MHFA) was created by the state legislature in 1971 to provide financial and technical assistance for construction and rehabilitation of low- and moderate-income housing. The MHFA was formed to meet a shortage in Minnesota of decent, safe, and sanitary housing at prices or rentals within the means of low- and moderate-income households. Financial institutions and the construction industry have been unable to supply this housing without public assistance. Local Housing Redevelopment Authorities (HRA's) and the MHFA are assuming a greater responsibility in providing the assistance previously supplied through federal programs. The legislature has declared that it is the public policy of the state, through the Agency, to provide housing for persons and families of low- and moderate-income, to assist in the elimination of sub-standard housing conditions in the state, and to prevent the recurrence of such conditions.

The legislature authorized MHFA (1974 Session Laws, Chapter 441) to begin a rehabilitation loan program and sell \$100 million in bonds to support that program as one of several MHFA programs designed to meet the housing problem of the state's low- and moderate-income households.

Background

A study of the housing needs in Minnesota, undertaken jointly by the Minnesota Housing Finance Agency and the Minnesota State Planning Agency in 1972, concluded that the housing production and maintenance rate has lagged behind the output level necessary to assure that sufficient adequate housing is available to meet the state's household demand. The net supply of housing increased by 101,767 from 1960 to 1970. (Housing deleted from the total supply, e.g., by demolition, was subtracted.) The net increase in the number of households during the same period exceeded this supply of new housing units (Table 1).

Forty-nine percent of the state's 1.22 million housing units were constructed prior to 1940. Over 63 percent of the pre-1940 units are in rural areas. The extensive inspection conducted as part of federally assisted renewal projects of the state showed that many of the 600,000 pre-1940 houses are likely to require significant repair. Over 75,000 units which currently are owner- or renter-occupied by over 169,000 persons lack complete plumbing facilities.<sup>1</sup>

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<sup>1</sup>Complete plumbing means a housing unit has hot and cold water inside the structure as well as a flush toilet and a bathtub or shower inside the structure for the exclusive use of the inhabitants of the unit.

An additional 7,000 vacant units and 20,000 units occupied by 60,000 persons had complete plumbing but lacked adequate heating,<sup>2</sup> and 64,342 or 7.8 percent of all owner-occupied units, housing over 450,000 persons, were crowded or seriously overcrowded in 1970 (more than 1.5 persons per room).

The 1970 census data indicate that low- and moderate-income households have relatively limited access to safe and sanitary housing which at a minimum has complete plumbing and adequate heating. This problem is general to all types of housing in all areas of the state, though substantial variations between counties exist, including geographical differences in

- . vacancy rates (for all housing and, more importantly, for units with all plumbing facilities and heating equipment);
- . the distribution of housing units by age, condition, and price.

The need for new or rehabilitated housing for the state has been estimated as follows:<sup>3</sup>

- |   |                           |
|---|---------------------------|
| . Replacement or rehabilitation of existing stock of deficient units (the figure was derived from data on the number of units which are currently deficient in either plumbing or heating, and assumes the need to replace up to 10% of the pre-1940 units which have complete mechanical facilities but are in need of substantial repair or replacement). | 100,000-units<br>150,000  |
| . Household inventory increase between 1970 and 1980 (this is the projected stock necessary to maintain a minimal vacancy rate of 3% in all areas of the state, assuming new household formations will be at a rate somewhat reduced from the 1960-1970 rate).  | 125,000 units             |
| . Total   | 250,000- units<br>275,000 |

#### Program Description

A legislative bill was passed in 1973 which authorized income tax

<sup>2</sup>Inadequate heating is defined as those housing units whose heating equipment has either (1) room heaters without flue; (2) fireplaces, stoves, or portable heaters; or (3) none.

<sup>3</sup>Minnesota Housing Finance Agency and Minnesota State Planning Agency, Housing Needs in Minnesota (July, 1972), pp. 11-12.

TABLE 1.--CHANGES IN HOUSEHOLDS AND HOUSING UNITS, 1960-1970

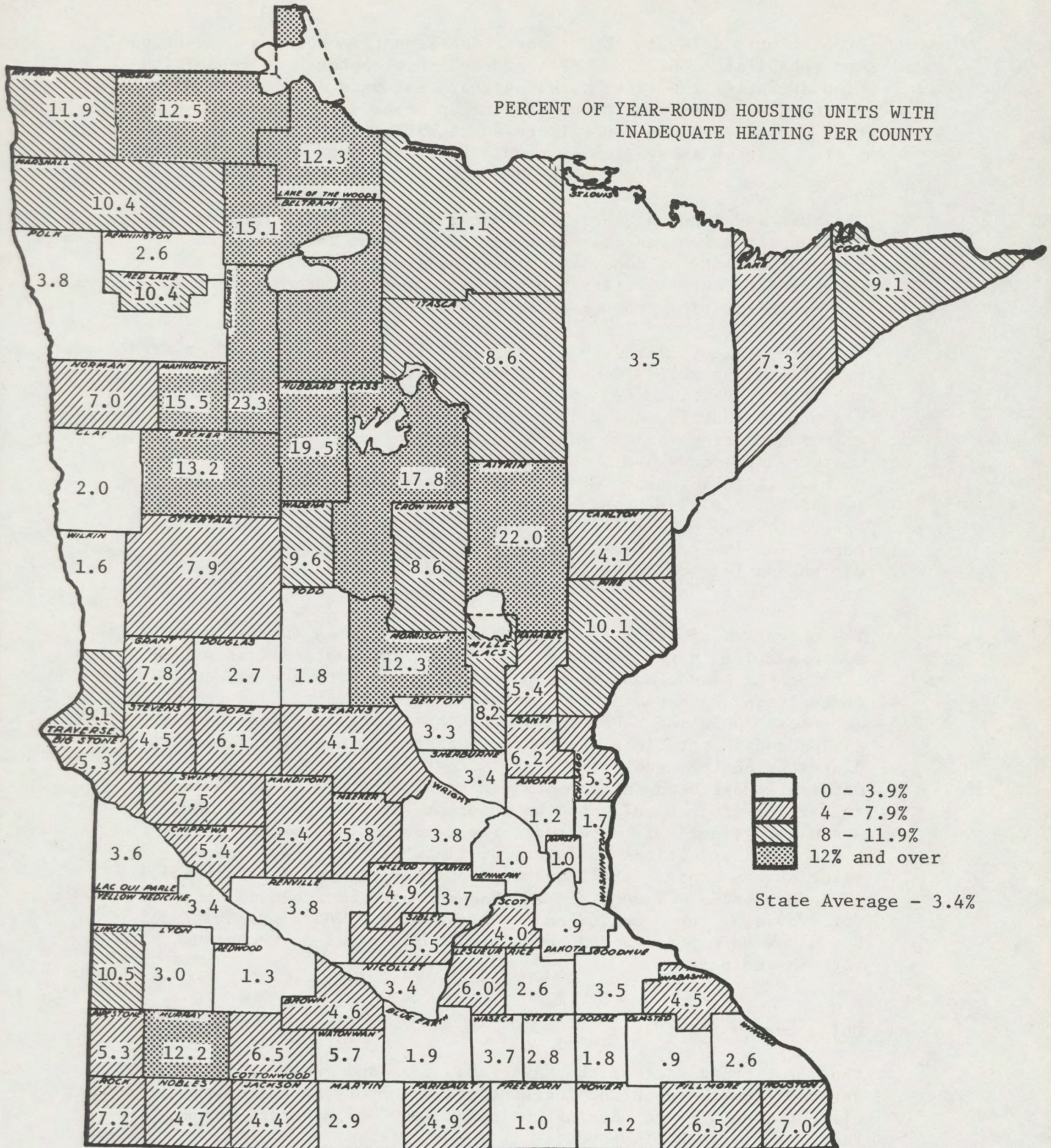
|                        | <u>Net Increase in<br/># of Households</u> | <u>Net Increase in<br/>Housing Supply</u> | <u>Net Deficiency<br/>of Units for<br/>New Households</u> |
|------------------------|--|---|---|
| State                  | 161,965                                    | 101,767                                   | 60,000  |
| 7-County<br>Metro Area | 121,290                                    | 118,585                                   | 3,000   |
| Outstate               | 40,675                                     | -16,818                                   | 57,493  |

Source: Census of Population and Housing, 1970.





PERCENT OF YEAR-ROUND HOUSING UNITS WITH INADEQUATE HEATING PER COUNTY



Source: Housing Needs in Minnesota.

credits or a delay in the property assessment increase as incentives for rehabilitation. The MHFA regarded this approach to rehabilitation as "after the fact," arguing that real estate taxes had been overused as an excuse for not fixing up homes. They have found that property values don't increase significantly with home improvement. If cash is available, people will make improvements on their homes.

The MHFA developed a housing package jointly with St. Paul and Minneapolis which was presented to the governor in 1974. The non-availability of money was stated as the main reason for the existence of deteriorating housing; this was the premise on which the rehabilitation programs were developed.

The MHFA was authorized by the 1974 rehabilitation loan and grant legislation to sell \$100 million in tax-exempt revenue bonds to make money available for low-interest loans for home improvements. Reasonable cost financing is provided on the loans through an extended mortgage and a reduced interest rate. Conventional home improvement loans have a term of five to seven years at an interest rate of 11 to 13 percent. The debt service for this conventional loan is much higher than a low- or moderate-income person can afford to pay. The MHFA loans will generally be for a twenty-year term. The interest rate will be graduated, the particular rate assigned a loan based on family income and family size, as well as the interest rate on the bond financing the loan.

The operation of the MHFA rehab program depends on initiatives and expertise in the market place. Financial institutions will service the loans; housing authorities, community groups, and contractors are expected to handle technical matters. In the currently operating MHFA low-interest home mortgage loan program, 85 lending institutions are participating, representing a good distribution throughout the state. Legislators and local officials have been instrumental in getting lending institutions to participate. Local consumer interest has also been influential. A similar response is expected for the rehab program. If local financial institutions in an area fail to participate, community agencies can process the loan provided that financial responsibility is demonstrated. Incentives and bonuses will be given communities for providing their own technical assistance. There probably will be no new MHFA staff added to help with financial or technical work in the regions.

### Objectives

The first broad goal of the MHFA rehab loan and grant program is derived from the enabling legislation. Each of the following elements, related to housing units for low- and moderate-income families, is to be improved:

- . structural elements of the unit as described in the local housing code;

- . market value of a unit;
- . desirability of a unit;
- . adequacy of a unit for the number of occupants;
- . insurability of the unit for fire risks;
- . financing ability of homeowners within a reasonable share of their income;
- . ability of private and public enterprise and financial institutions to provide financing and assistance within the means of homeowners.

Related to this goal, it is the objective of the MHFA to deliver assistance in areas of demand and need with a reasonable balance between metropolitan and non-metropolitan areas of the state.

The next three broad goals of the MHFA rehab program reflect the views of agency director James Dlugosch about the effect of housing deterioration and renewal on urban vitality.

The second broad goal of the MHFA is to reverse the trend of out-migration from the city. People move to those areas with housing and amenities they desire and can afford. A rehab program, coordinated with a program for improved public facilities and services, will attract people to the city. Dlugosch adds that the rehab program should also reverse the trend toward subdivision of single-family homes into duplexes. Single-family homes were not built for more than one family. Dlugosch argues that a subdivision leads to a decreasing level of maintenance and eventually blight, especially in the case of absentee owners.<sup>4</sup> It is inefficient to lose the single-owner resident, since his house replacement would have to be located elsewhere at a higher resource cost.

The third broad goal of the MHFA is to increase the commitment of localities to provide the services and facilities necessary to stem urban blight. Though this may mean increased property taxes, in the long run it will mean an increased return on housing investments, greater pride in locality, and less state interference.

The fourth broad goal is to develop and maintain sound neighborhoods. The short-term objective (3-5 years) is to revitalize neighborhoods.

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<sup>4</sup>The effect of absentee owners on decreasing maintenance and increasing blight should be qualified based on recent studies. Long-time absentee owners who inherited their property and live outside the city containing the property are more likely to decrease maintenance. Arthur D. Little, Inc., A Study of Property Taxes and Urban Blight (U.S. Government Printing Office: Washington, D.C., January 1973); G. Sternlieb, "Abandonment and Rehabilitation: What Is to be Done?" in Papers Submitted to a Sub-Committee on Housing Production, Housing Demand, and Developing a Suitable Living Environment, Committee on Banking and Currency, House of Representatives, 92nd Congress, First Session (U.S. Government Printing Office: Washington, D.C., 1971), pp. 287-314.

Loans should be concentrated enough to reverse the blight process. The rehabilitation should be supplemented with technical assistance at the block and neighborhood levels, as suggested by the Citizens League. The long-term objective is to avoid deterioration of sound neighborhoods. Even loans should be given to individuals in sound neighborhoods to avoid deterioration and thus to avoid the necessity of significant public investment at a later time.

The immediate goal of the MHFA rehab program is to maximize the number of loans given and minimize the number of rejected applications. Successful rehabilitation of many homes under the program can be highlighted in advertisements directed at particular segments of the state where there is a demonstrated need for rehabilitation loans but little voluntary response.

### Operating Procedures

The operating procedures were developed in April and May, 1974, at meetings of the MHFA Rehab Implementation Task Force. The latest edition of the procedures, drafted May 17, 1974, is still being revised by the MHFA and has not been submitted to the public as required by the Administrative Procedures Act (Sec. 15.0412, Subd. 4, Minn. Statutes, 1974). Public approval is necessary prior to program commencement.

The Task Force included: representatives of the two main banks to be involved in the program--First Bank System and Banco Mortgage Company; representatives of four HRA's with rehabilitation experience--Minneapolis, St. Paul, Duluth, and Austin; one developer; representatives of the Greater Minneapolis Housing Corporation; Bruce A Beneke, Legal Assistance of Ramsey County, Inc.; James Solem, State Planning Agency; two people from MHFA; a representative of a coalition of neighborhood groups; and Michael Gleeson, citizen member.

Several issues were debated by the committee members:

- . Are the contractors to be bonded?
- . Should banks or HRA's administer the program?
- . What is an acceptable improvement?

The latest draft (May 17, 1974) of the procedures states that the contractor must be bonded or provide a cash deposit of 10 percent of the cost of the work before a rehab loan may be granted. It was decided that HRA's should administer the rehab program.

The policy for acceptable improvements is stated in the May 17 operating procedures: "Preference will be given applications for improvements which will not increase or which will decrease consumption of energy." This position is a reversal of the policy stated in earlier drafts of the operating procedures. Previous

drafts allowed as eligible improvements: purchase and installation of a built-in dishwasher and garbage disposal; purchase and installation of central air conditioning.

### Operation of the Program

#### Eligibility

The MHFA rehab loan and grant process begins with a low- or moderate-income family, a cooperative housing corporation, or a limited dividend or non-profit sponsor making an application to a local participating financial institution or to a community group or agency. The determination of eligible applicants is contingent on the amount of the total incomes of such groups and families available for housing needs, the size of the family, and the eligibility of such groups and families for commercial or federally assisted loans for comparable home improvements.

Loan and grant eligibility and loan interest rate are based on the gross adjusted income of the applicant. The gross adjusted annual income, as specified in the Rules and Regulations of the MHFA, is the gross annual income from all sources before taxes or withholding, of all members in the family living in a housing unit after deducting specified amounts for each secondary earner, \$300 for each dependent, nonrecurring income, extraordinary medical or other expenses, and sums received from any child placing agency. Gross income is used rather than net income after taxes because of variation in the amount of tax deductions a household of a given income and size can take.

Persons of low- and moderate-income are those whose adjusted income does not exceed the guidelines established by the MHFA. The guideline income levels reflect the level at which people can afford the current rent in the market within a reasonable portion of their income. The MHFA estimates 25 percent of income as a reasonable portion of their income. The MHFA estimates 25 percent of income as a reasonable housing expenditure level.<sup>5</sup> The calculation of the guideline income figures take into account real estate taxes, interest rates, building costs, and utility costs. Two revisions have been made in the guidelines since the original estimation made in 1973 (Table 2).

#### Eligible Home Improvements

The borrower is not obliged to bring his house into full code

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<sup>5</sup> Minnesota Housing Finance Agency, "Rehabilitation Loan Program Operating Procedures (May 17, 1974), Appendix II.

compliance to be eligible for a loan, though he must provide evidence that the contemplated work is in compliance with the codes. This relaxation of full code compliance for a housing unit is in response to problems encountered in administering federal home-maintenance programs. Homes were inspected for code violations as part of the home maintenance loan application process. The owner was committed to correcting those elements not complying with code though he had not intended to make the size of investment that such a commitment required. There were often delays in paying contractors because rehab funds had to pass through federal, regional, state, and local offices before reaching the homeowner.

Rehab loans can also be used for general improvements to make a home more marketable and desirable. Restrictions are specified in the operating procedures to guard against open-ended loans and to insure that loans will be used for basic and necessary items and not for luxury items. The rules specify that properties for which loans are requested must be at least ten years of age or in need of repair to correct damage resulting from natural disaster. This stipulation is to discourage developers from selling unfinished homes and advertising the MHFA rehab program as a cost-saving way to finish the home.

#### Community Participation, Commitment Process

Local banks, community groups, and local governments will be responsible for encouraging people to apply for low-interest rehab loans. Localities will also be encouraged to provide new services and public improvements in areas of MHFA rehab investment.

The procedure by which localities will request loan money from the MHFA has not yet been established by the MHFA. Localities may have to assemble approved loan applications to send to the MHFA to indicate the amount of loan funds needed; localities may instead anticipate loan requests and ask for loan money from the MHFA based on anticipated loan applications.

The MHFA operates on a "forward commitment basis." The MHFA notifies local banks and communities of the date of a rehab bond sale. An application deadline for localities is established after which all loan applications from localities collected by the MHFA since the previous bond sale are examined.

For banks, this application process requires them to buy "commitments" from the MHFA for a "reservation" of funds for loans to community applicants. This "commitment fee" is equal to a small percentage (probably less than 1%) of the total MHFA money needed by the banks to make the anticipated loans during the period (Appendix 1). This fee buys the right for the lender

TABLE 2.--PROPOSED UPPER INCOME LIMITS  
FOR ELIGIBLE HOUSEHOLDS

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|                | <u>7-County<br/>Metro Area</u> | <u>Outside<br/>Metro Area</u> |
|----------------|--------------------------------|-------------------------------|
| 1973           | 12,000                         | 11,000                        |
| January 1974   | 13,000                         | 12,000                        |
| September 1974 | 16,000                         | 15,000                        |

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to lend at a set rate MHFA rehab money at a future time to families satisfying the income requirements. The reservation request submitted to the MHFA by the bank is accompanied by an outline of the way that the funds will be used.

There are two reasons for insisting on a commitment fee. First, the fee should act as an incentive for the local groups to screen the applicants adequately. The risk of the loan lies with the MHFA, not the local group. Second, the MHFA needs to ensure prospective bond buyers that the money will be lent out and not reinvested for a long term. Tax exemption is granted by the IRS on the rehab loans on condition that the money is not reinvested. The risk of these revenue bonds is higher than general obligation bonds and other low-interest securities. The investor is willing to take a higher risk only if compensated with a higher income from an investment, e.g., either from an increased interest rate or tax exemption. MHFA must sell low-interest rate bonds, therefore tax exemptions on the rehab bonds are necessary as an incentive to investors.

A local public agency may request MHFA loan funds by making a non-monetary commitment, usually a promise to provide supplementary services to areas receiving loans and grants. Localities requesting reservations of funds must have a housing maintenance code in effect. Priority in the allocation of funds will be given those localities which demonstrate the willingness and ability to provide technical assistance<sup>6</sup> in the operation of the program and/or the commitment of other public funds to improve local facilities and services. The strength of the commitment will be ascertained through questions on the loan application form.

Local banks will be encouraged to invest local money in rehabilitation though there will be no standard which specifies a required percentage of local investment per state money unit. Those localities which make available greater sums of local money will be preferred distribution points for state money.

The distribution of loans is also determined by the amount of substandard housing in an area relative to the state's total substandard housing. There is no good substandard housing data available. Charts of allocation weights were derived based on the existent data to act as a rehab fund distribution guide. Each locality is assigned a weight according to the following formula:

$$\text{weight} = \frac{\# \text{ of pre-1940 housing in a locality}}{\text{total state pre-1940 housing units}}$$

Based on this weighting procedure, about 50 percent of the rehab housing need is in the seven-county metro area; about 44 percent is within the Twin Cities.

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<sup>6</sup>Technical assistance includes house inspections and estimation of work that needs to be done.

The MHFA will distribute the loan money such that about half goes to the seven-county metro area and half goes outstate. A community will determine its own standards for local priorities under the stipulation that all funds are not used for a single project. Priority in the reservation of funds will be accorded particular kinds of requests, as outlined in the operating procedures;

- . loans to be made in rural areas;
- . loans to be used in connection with an urban homesteading program;
- . loans to be available to residents of urban renewal or concentrated code enforcement areas;
- . loans to rehab homes to which families are being relocated;
- . loans to be used in conjunction with local loan and grant programs.

#### Sale of Revenue Bonds

Revenue bonds are sold to cover the cost of rehab loans and administrative expenses. The revenue bond is a riskier investment than the general obligation bond. For the latter, tax money can be used to pay the interest and bond debt in case of borrower default. The revenue bond depends on the revenue of the issuing agency for its repayment. This being the case, it is important that the operating procedures of the program are designed to minimize the risk to the bond holder.

There are three major risk-minimizing procedures the MHFA rehab program is following to demonstrate investment security. First, the program design should minimize the potential for loan default. Loans will be given such that the monthly debt service does not exceed 25 percent of a household's income, a reasonable housing expenditure level which has been used in previous federal programs. If the sum of the monthly debt service on the rehab loan, the family's existing monthly housing debt service, and the service charges on the rehab loan is greater than 25 percent of the family's monthly income, the loan will be subsidized as a grant to the family for an amount up to \$5,000 to bring the payments within 25 percent of the family's income. The service charges on the loan can be made a part of the loan amount if necessary to spread out the payment.

The second security measure maximizes the possibility of recovering the loan amount in case of default. The maximum loan to be given a household will equal the difference between the post-rehab home value and the current home debt. The post-rehab home value is determined by an appraiser from the lending institution. This future value is difficult to appraise because many factors must be a part of the calculation, including a change in the house's physical structure, change in the neighborhood, and change in the

economy. The inability to appraise accurately future house value increases the risk that MHFA will not be able to collect on the loan in the event of foreclosure.

The MHFA has a debt service fund with \$1 million appropriated by the legislature to be used to refund bonds in case of borrower default. The MHFA's claim on the remaining debt of a rehab loan in the case of foreclosure is secondary to such claims as the first mortgage, thus increasing the risk of the loan. The debt service fund increases the probability that the debt not recovered from foreclosure money can be covered by alternative funds.

The third element in the rehab program design to maximize the possibility of recovering a loan is to require that contracts-for-deed be refinanced. A contract-for-deed is taken by the seller when a buyer of a home does not have all the necessary cash for the down payment, cannot get a mortgage loan (high risk person or no money available), or does not wish to refinance (the mortgage being assumed has a significantly lower interest rate than what could be gotten in the present market). In the contract-for-deed, the buyer agrees to pay a given percentage of the face value (usually 1 percent) of the unpaid difference between the price of the house and the value of the assumed mortgage. This difference is amortized monthly. The seller holds the fee record until the terms of the contract are met.

Contract-for-deed is a riskier means by which to buy a house than refinancing. If the seller is not the true owner, the investment of the buyer through downpayment and monthly payments could be for naught since he does not legally own the property in which he is investing until all payments agreed to in the contract are made. The MHFA could not make a loan to a contract-for-deed borrower because that borrower would hold no equity in the property to be rehabilitated. It is MHFA policy that the loan be no greater than the equity held on the rehabilitated property so that in the event of foreclosure, the loan money can be recovered from the equity. If an owner holds no equity, there is a low probability of being able to recover the loan amount. A contract-for-deed borrower may, however, be eligible for the MHFA low interest loan program through refinancing.

An applicant who has not entered into a contract-for-deed will be discouraged from refinancing unless it is necessary to bring the debt service within 25 percent of his income. Greater restrictions are put on the permissible rehab work that a refinancing borrower can have done; contract-for-deed refinancers are excluded from the restrictions. The restrictions require that the property be brought into compliance with the housing maintenance code and that the cost of the rehabilitation work equal at least one-third the total loan amount. The effect of the restrictions is intended to:

- . discourage those who perceive the program to be an easy avenue by which to refinance;

- . increase the probability that the life of the house will equal or exceed the life of the loan since the MHFA will have a double financial interest in the home, holding both the refinanced mortgage and the rehab note.

The operating procedures state that a rehab loan may not be assumed by the buyer if the property is sold. Some of the Task Force committee members thought that this would be another way to maximize the security of the loan. If loan assumption were permissible, the assuming party may be a greater credit risk than the original holder of the loan. However, this restriction makes it less attractive for people to take out a long-term loan for fear of becoming immobile in the same house for the life of the loan or encountering financial difficulties if a move is necessary. Dlugosch hopes to see this non-assumption clause removed from the operating procedures. There is proposed state legislation to remove non-assumption clauses from contracts as these are believed to be an alienation of property rights which limit the rights of consumers.

The state usury law (1971 Statutes, Chap. 334) and the cost of money have been two major obstacles impeding commencement of the MHFA rehab program. The usury law prevents mortgages and bonds with interest rates greater than 8 percent from being issued. The MHFA must issue bonds at an interest rate less than the interest rate to be charged the consumer for a loan to give a margin to cover administrative expenses. The present loans being made under the September 19, 1974, \$54 million bond sale include 0.375 percent service charge and 0.205 percent operating expense for MHFA charge on each mortgage. The servicing fee is expected to be higher for the rehab program since there is more work involved. The rehab bond rate cannot exceed 6.75 percent with these anticipated costs to meet usury limits.

The MHFA negotiated with the underwriters to set an interest rate for the bonds but could not get an agreement to a rate near 6.75 percent, this rate being lower than that at which underwriters thought they could sell bonds to investors. An alternative way of setting an interest rate on a bond is to receive bids from underwriters on the interest rate at which the underwriter would be willing (and able) to sell the bond. The lowest bid is awarded the contract. The advantage of negotiations is that important potential buyers of the bond, usually insurance companies, can be included. In negotiation, changes in the operating procedures could be made to satisfy underwriters, purchasers, or political opposition. Two changes were made during negotiation in the September 19, 1974, \$54 million MHFA bond. The "servicing agreements" were added at the request of an insurance company. "[T]he State of Minnesota is not liable on the series A bonds" was added under pressure from a state senator. This explicit lack of state backing, except for the appropriated money from the legislature for the debt service reserve, makes the bonds less secure than other investments.

The rehab bonds will likely be rated A or A1. This rating means the bond is riskier than other bonds which may have an Aa or Aaa rating. The interest rate must be higher to cover the greater risk. The rating affects the marketability of a bond (Appendix 2). The MHFA's September 19, 1974, \$54 million bond has an Aa Moody's rating. The Minneapolis noncallable housing rehabilitation bond dated August 1, 1974, and due August 1, 1975-1984, for \$2,050,000 has an Aaa Moody's rating.

#### Bank Participation

The MHFA rehab program was designed to take maximum advantage of the "expertise" in the market place, according to Dlugosch. The program depends on financial institutions originating and servicing the loans. Origination includes property appraisal, title check, and other loan preparatory activities. The origination fee will be approximately 1 percent to cover the general overhead, including clerical work and computer time. There is not enough experience in home improvement loans to know exactly what the market rate for the origination fee will be. Servicing includes monthly billing, accounting, delinquency notices, collection fees, and some of the foreclosure costs. This fee is 0.375 percent under the \$54 million MHFA mortgage program. It may be higher for the rehab program.

The banks will likely realize very little profit by handling the rehab loans as there are greater data requirements and the loans are smaller. A relatively smaller fee will be received for each loan since payment for services is usually a percentage of the loan. Increasing the proportion of the loan which is paid for the fee will increase the cost of the loan, defeating the purpose of the program. Some banks, especially in the Duluth area, have been reluctant to participate in either the MHFA low-interest mortgage program or the MHFA rehab program because there appears to be little if any profit in either program. Duluth HRA submitted a position paper to the Task Force (April 24, 1974) which outlined the local bank's position on the operating procedures of the rehab program. Suggestions included:

- . charging a flat fee for origination services of \$150 per loan basic plus \$20 per each \$1,000 of a loan or part thereof;
- . servicing to be done by one servicing agent under contract to the State at a contracted cost per loan per month to cut costs due to increased activity, uniformity, computerization and other factors;
- . starting the program through the local public agencies who have practical knowledge of the program, experienced staff, existing forms, and an interest in this type of program to make it work;

. involving lenders only as they show interest.

The Minneapolis rehab loan program uses the Minneapolis Housing Redevelopment Authority (MHRA) to do most of the program work; the banks only handle the computerized records, mail monthly statements, and receive statements. A flat fee of 60 cents per month per loan is received by the bank for these services.

The MHFA selects the trustee bank for each program through a bidding process. The trustee responsibilities include controlling program expenditures, investing for the agency, acting as the pay agent to the rehab bond investor, and segregating program funds. The bid includes the cost of these activities as well as a commitment to buy some of the program bonds (especially important for more difficult to sell bonds).

#### Contractors

A loan applicant must employ an approved contractor to do the estimates and rehab work. HUD and Farmers Home Administration have an "unacceptable risk determination" list which names unacceptable contractors. Contractors must be bonded or provide a cash deposit of 10 percent of the cost of the work before a rehabilitation loan is granted. These two requirements may be temporarily waived in an area for which reservations have been provided if the public entity performing the loan origination determines that such requirements can be met within six months of the date of the loan.

All contractor work must be covered by an agency approved warranty. If a contractor defaults on a warranty or defect is found in the warranty-covered rehab work within two years of the work, the agency may perform the needed work and subrogate the right to the owner to collect damages from the contractor.

#### Concluding Remarks

A staff member has recently been hired by MHFA to complete the last development stages of the program and get it ready to begin operation when the bonds are sold. Some of the problems which must be resolved include: facilitating the relationship between the MHFA, local housing authorities, and localities; and setting up the most expedient loan and grant relationship. It is as yet unclear how grants are best used, and whether grants should be given as part of a grant-loan package or awarded separately.

The rehab program will be coordinated with the Federal Section 8 leased housing program. This program would make rent subsidy money available to those in rehabilitated buildings whose owners have had to raise the rent above 25 percent of a resident's income to cover the cost of rehab investment.

## Issues to Consider in Analysis and Evaluation of the Rehab Program

### Loan and Grant Process

Are the loan and grant funds being distributed efficiently such that the maximum number of applicants are able to get the rehab financial assistance they need?

### Banks

Will the banks administer the loans? What service and origination fees must be set to encourage a sufficient number and distribution of participant banks? Are there ways besides encouragement by legislative and Congressional representatives from the local area to get financial institutions to participate? How can banks be stimulated to commit part of their commercial loan funds to the rehab loan program, thereby increasing the total number of applicants able to receive a loan? What is the effect of commercial loan commitment on the distribution and interest rates of loan money to other types of customers?

### Security

What defines a secure loan? Issues include individual versus neighborhood rehab; effective "red lining" by the local financial institutions; income groups (should an income insurance be required to guard against loan default in case of unemployment?).

### Community Conflict

Even if the loans are secure, there may be conflict between communities as to what an appropriate expenditure would be for rehab. Fence repair may be rehab to one community and not to another.

### Scandals

How can the agency minimize the misuse of the money? This issue plagues programs of this sort, but ham-stringing the program only discourages people from taking loans. How much ham-stringing is necessary and feasible to minimize the risk but not unduly restrict applicants?

### Rehabilitation

What is it? This program leaves it to the market to determine, the definition specified through the standards of those doing the

rehab work rather than being externally imposed. What are criteria which can be applied to determine if rehabilitation has taken place? Should rehabilitation be based on a single unit or a neighborhood?

#### Justification

How is public investment and support for rehabilitation justified? If a rehabilitation project is justified, what constitutes a financially sound program? The answer to the latter question involves an assessment of the benefits: What factors constitute the rehabilitation, and how are they measured? It also requires an assessment of the costs: What constitutes a safe loan? What constitutes a worthwhile grant? How much revenue was lost to state and federal governments because of the bond tax exemption?



Appendix 1

## Commitment Fee

A commitment fee is paid by the local financial institution to the MHFA to reserve rehab money for the local area, the amount reserved contingent upon the applications received during a period. The commitment fee will likely be less than 1 percent of the reservation amount.

The commitment fee is used in commercial banking to allow a business to pay a fee for the right to borrow money at a future time at a set interest rate. For the business, the commitment fee acts as a hedge against time, especially in a period of rapidly rising interest rates. The fee averages 1 to 4 percent of the total face value of the loan amount, the specific rate charged a function of the risk.

There are two sources of risk which are considered in determining the commitment fee for conventional loans. The first is the probability of the desired money being available in the future. The second is the future interest rate. A bank can lose money by having to borrow money at an interest rate higher than that at which they are making the loan. The higher the interest rate is expected to go above the interest rate specified in the commitment agreement, the higher will be the commitment fee.

The commitment fee for the rehab program does not lock the financial institution into an interest rate, nor are there the problems of future money availability since the money will be supplied from the MHFA, thus the commitment fee should be about 3/8 to 5/8 percent of the total loan reservation.

Appendix 2

## Bond Rating

The two principal bond raters are Moody's and Standard & Poor. The rating process is quite subjective; the agency can have an influence on the final rating. The final rating determines the interest rate underwriters are willing to offer. It also determines the breadth of the investment market which is open to the agency. Private corporate investors usually have standing policies which specify the bond rating above or below which investments will not be considered. The higher the rating on a bond, the wider is the market for potential investors in that bond. Public agencies are not legally barred from investing in MHFA bonds but won't, since better investments can be made in taxable bonds. Public agencies don't have to pay taxes on taxable bond receipts.

Appendix 3

Efficient Use of Loan and Grant Funds

An analysis of the loan and grant potential of the MHFA suggests that a combination of loans and grants would yield the most efficient use of bond money. An efficient method means that in the long-run the greatest number of requests for funds of a given amount could be filled. The MHFA bond money would be used for loans. Funds appropriated by the legislature are required to be used as grants.

The following example illustrates the loan and grant process. It is assumed that people receiving rehab funds should pay 25 percent of their income for housing. For simplicity, assume MHFA sold a \$5,000 bond at face value with 7 percent interest paid annually.

Applicant Z has applied for a \$5,000 rehab loan. Assume that Z can pay \$400 per year for twenty years on a rehab loan and that this \$400 added to his other housing expenses equals 25 percent of his income. If MHFA loaned \$5,000 to Z, it would have to subsidize Z at \$71.95 per year to make up the difference between the interest rate Z is able to pay on the loan and the interest rate on the MHFA bond funding the loan. The subsidy amount was calculated using the capital recovery factor:

$$R = P \left[ \frac{i(1+i)^n}{(1+i)^n - 1} \right] = (5,000)(.09439) = 471.95$$

where,

P = principal = \$5,000

i = interest rate = 7 percent

n = interest rate period = 20 years

R = uniform annual payment = \$471.95

The subsidy then equals \$471.95 - \$400 = \$71.95\*

There is no revenue generated from bond funds used for subsidies, thus the loan pool is reduced over time.

A combination of a grant and loan should be given Z to maximize the revenue the MHFA receives from the borrower of bond funds, which in turn maximizes the amount of bond money available for loans. An algorithm could be determined to calculate the best combination. Let us assume that the best combination was a loan for \$3,927.20 and a grant for \$1,072.80 which totals the requested \$5,000. Given that Z can pay \$400 per year, an 8 percent interest rate

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\*The MHFA subsidy is actually greater than this amount since the interest rate on a loan has to also cover administrative costs, in this case about 8 percent. Thus, the subsidy would be \$109.25 per year.

is charged on the loan. This was calculated using the present worth factor formula:

$$P = R \left[ \frac{(1+i)^n - 1}{i(1+i)^n} \right]$$

$$3,927.20 = 400 \left[ \frac{(1+i)^{20} - 1}{i(1+i)^{20}} \right]$$

where,

$$i = 8$$

Z is actually paying an effective interest rate of just under 5 percent on the entire \$5,000;\* MHFA is receiving enough revenue from the loaned funds to cover costs.

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$$* \frac{P}{R} = \left[ \frac{(1+i)^n - 1}{i(1+i)^n} \right]$$

$$\frac{5,000}{400} = \left[ \frac{(1+i)^{20} - 1}{i(1+i)^{20}} \right]$$

$$12.5 = \left[ \frac{(1+i)^{20} - 1}{i(1+i)^{20}} \right]$$

From the table for the series present worth factor, the factor, 12.5, yields an  $i \approx 5$  percent.