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Equal Opportunity Housing and Equal Opportunity Employment

DATE: February 13, 2015

TO:

The Honorable David J. Tomassoni, Chair
Senate Environment, Economic Development
and Agriculture Budget Division
G-9 Capitol

The Honorable Kathy Sheran, Chair
Senate Health, Human Services and Housing
Committee
G-12 Capitol

The Honorable Pat Garofalo, Chair
House Job Growth and Energy Affordability
Policy and Finance Committee
485 State Office Building

The Honorable Bob Gunther, Chair
House Greater Minnesota Economic and Workforce
Development Policy
563 State Office Building

The Honorable Bill Ingebrigtsen, Ranking Member
Senate Environment, Economic Development and
Agriculture Budget Division
143 State Office Building

The Honorable Michelle R. Benson, Ranking Member
Senate Health, Human Services and Housing
Committee
115 State Office Building

The Honorable Karen Clark, DFL Lead (Housing)
House Job Growth and Energy Affordability Policy and
Finance Committee
273 State Office Building

Kim Norton, DFL Lead
House Greater Minnesota Economic and Workforce
Development Policy
281 State Office Building

FROM: Mary Tingerthal, Commissioner

SUBJECT: 2014 Disparities Report

Pursuant to 2014 Minnesota Laws, Chapter 312, Article 2, Section 16, enclosed is Minnesota Housing's annual report on housing disparities.

If you have any questions, please contact me at (651) 296-5738 or mary.tingerthal@state.mn.us or John Patterson at (651) 296-0763 or john.patterson@state.mn.us.

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Planning, Research & Evaluation

2014 Disparities Report

2/13/2015



2014 Disparities Report

In 2014 Minnesota Laws, Chapter 312, Article 2, Section 16, the Legislature requires the Minnesota Housing Finance Agency to annually report on housing disparities.

(b) The Housing Finance Agency shall annually report to the chairs and ranking minority members of the house of representatives and senate committees with jurisdiction over the agency on progress, if any, the agency has made in closing the racial disparity gap and low-income concentrated housing disparities.

This report fulfills that requirement for 2014.

Disparities in Homeownership

While Minnesota has the third highest homeownership rate in the country, it also has the third highest disparity in homeownership rates between white households and households of color or Hispanic ethnicity, as shown in Table 1

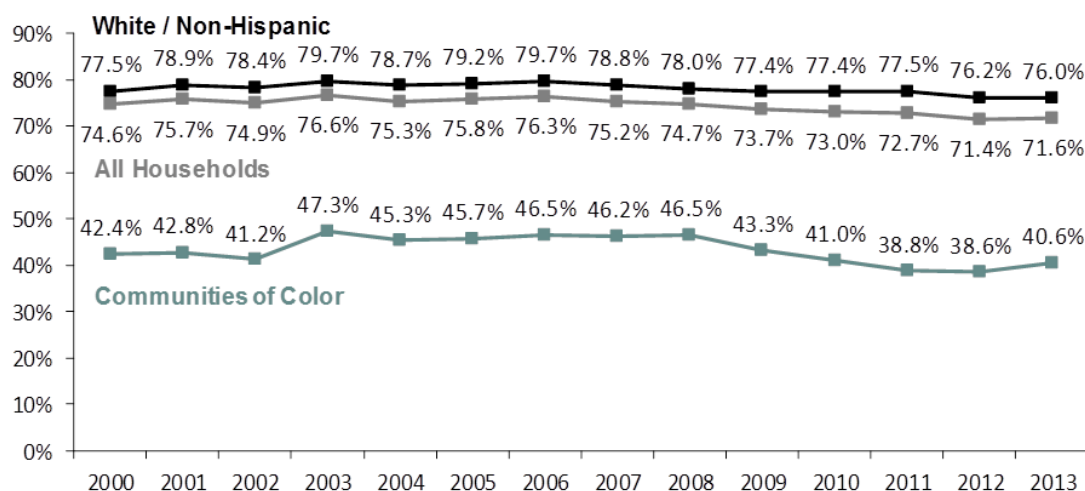
Table 1: 2013 Homeownership Rates¹

Category	Rate	National Rank
Overall Homeownership Rate	71.6%	3 rd Highest
Homeownership Rate for White/Non-Hispanic Households	76.0%	6 th Highest
Homeownership Rate for Households of Color	40.6%	39 th Highest
Gap in Homeownership Rates	35.4%	3 rd Largest

As show in Figure 1, the disparity has been persistent over time. The percentage-point disparity shrank from 35.1 in 2000 to 31.5 by 2008, increased to 38.7 by 2011, and decreased to 35.4 by 2013. Two main factors caused the increase in the disparity between 2008 and 2011. First, foreclosures disproportionately affected households of color, which reduced their homeownership rate; and second, with the foreclosure crisis, the standards to qualify for a mortgage became much stricter, which made it more difficult for many households of color to buy a home.

¹ U.S Census Bureau, 2013 American Community Survey

Figure 1: Historical Homeownership in Minnesota Rates by Race and Ethnicity²



As shown in Table 2, Minnesota Housing has done a better job of reaching households of color or Hispanic ethnicity than the overall mortgage market in the last eight years. The Agency's share of loans going to households of color or Hispanic ethnicity ranged from 15 percent to 33 percent while the share was only 9 percent to 11 percent for the overall market. In addition, Minnesota Housing has estimated that roughly 25 percent of renter households in Minnesota that are income eligible for the Agency's first-time homebuyer programs are households of color or Hispanic ethnicity. The Agency's recent 23 to 26 percent lending rate indicates there are no disparities in Minnesota Housing's lending. (This assessment does not include eligibility based on credits scores, debt-to-income ratios, and other qualifying requirements.)

Table 2: Share of Home Mortgages Going to Households of Color or Hispanic Ethnicity in Minnesota

Year	Number of Mortgages Supported by Minnesota Housing ^a	Number of Minnesota Housing's Mortgages Going to Households of Color or Hispanic Ethnicity ^a	Share of Minnesota Housing's Mortgages to Households of Color or Hispanic Ethnicity	Share of Overall Market's Mortgages to Households of Color or Hispanic Ethnicity ^b
2007	3,329	502	15%	11%
2008	2,803	474	17%	9%
2009	1,260	411	33%	10%
2010	1,970	624	32%	10%
2011	2,299	549	24%	10%
2012	2,367	555	23%	9%
2013	2,855	689	24%	11%
2014	2,547	674	26%	Not Available

a. Includes Minnesota Housing's regular home mortgage programs for first-time homebuyers, Habitat for Humanity financing, Bridge to Success financing, and the Targeted Mortgage Opportunity Program.

b. Home Mortgage Disclosure Act (HMDA) data.

² U.S. Census Bureau, Decennial Census and American Community Survey.

Minnesota Housing's higher percentage rates of lending to households of color in 2009 and 2010 occurred during the housing crisis, when the overall mortgage market was significantly suppressed. During this time, Minnesota Housing's overall lending was down significantly, but its outreach efforts to households of color or Hispanic ethnicity largely maintained the number of loans going to these households, which resulted in a higher lending rate with overall production suppressed. For example, in 2009, Minnesota Housing financed only 1,260 mortgages, with households of color or Hispanic ethnicity receiving 411 of them. In contrast, the Agency's overall production nearly doubled (2,299 loans) by 2011, with a larger number (549 loans) but smaller share going to households of color or Hispanic ethnicity.

While Minnesota Housing has achieved significant success in reaching households of color or Hispanic ethnicity, the Agency is striving for even better outcomes. In 2014, the Agency created two pilot programs - the Enhanced Homeownership Capacity Initiative (\$650,000 annually) to provide specialized homebuyer training and the Targeted Mortgage Opportunity Program (\$10 million annually) to provide specialized mortgage products to borrowers who are likely to be successful homeowners but are unable to access standard mortgage financing in the current market, which has strict qualification standards. As expected, households of color or Hispanic ethnicity have benefited from the targeted mortgage program. Between September 1 and December 31, 2014, 71 percent of these loans went to households of color or Hispanic ethnicity.

Minnesota Housing also redesigned one of its down-payment assistance programs, with an October 1, 2014 launch. From 2006 through 2014, the Agency used federal HOME funds to offer deferred loans for down-payment assistance (the HOME HELP program). Federal HOME rules made the product non-standard and difficult to market and use; and recent changes to HOME rules have made it even more difficult. Despite being a challenge, HOME HELP has reached a set of borrowers that needed the assistance. It served a large number of single-parent households, larger households, and households of color or Hispanic ethnicity (55 percent of program participants in 2014). To better serve these borrowers, the Agency replaced HOME HELP with Deferred Payment Loan Plus (DPL+), a new program that will use Agency funds, which are more flexible than HOME funds. Implementation has been very successful with households of color or Hispanic ethnicity accounting for 75 percent of program participants in the first three months. In addition, 70 percent of the borrowers are single parents, and the average household size is 4.2 people.

Rental Housing: Providing Access to Opportunity

Minnesota Housing's primary tool for developing affordable rental housing is the Low-Income Housing Tax Credit (LIHTC) program. One of the program's multiple goals is economic integration – giving lower-income households the opportunity to live in higher income communities. Appendix A (starting on the next page) provides an assessment of the developments that received 9% tax credits from Minnesota Housing for allocation years 2009 through 2014.



Developments Selected to Receive 9% Low-Income Housing Tax Credits in the Twin Cities Metro Area from Minnesota Housing

Minnesota Housing has conducted an assessment of its 9% tax credit selections from 2009 through the first round of 2014 credits. These are the credits that fall under the competitive process outlined in Minnesota Housing's Qualified Allocation Plan (QAP). Because the analysis focuses on the role Minnesota Housing's QAP plays in providing access to opportunity and facilitating integration, it excludes credits allocated by sub-allocators and 4% credits with tax exempt bonds. Those credits are allocated by others or through a noncompetitive process with a minimal threshold. As the following analysis shows:

- Minnesota Housing is spreading 9% tax credits and units throughout the region – giving tax-credit tenants options to access different types of opportunities.
- The selections are supporting integration (de-concentrating poverty) – giving lower-income households the opportunity to access communities with lower levels of poverty.

The attached maps (Maps 1 – 5) show the location of projects that Minnesota Housing selected for competitive 9% credits in relation to the following geographic areas:

1. Opportunity areas identified in the Metropolitan Council's draft Fair Housing Equity Assessment (FHEA). The following grid specifies the general characteristics of each area:

Area	Access to Jobs and Services	School Performance	Exposure to Pollutants	Crime Rate
Green	High	Below Average	Higher	Higher
Yellow	Moderate	Average	Moderate	Moderate
Blue	Low	Above Average	Lower	Lower
Access to jobs and services, school performance, exposure to pollutants, and crime rate are defined in the Metropolitan Council's draft Fair Housing Equity Assessment along with how they are evaluated.				

2. Levels of concentrated poverty (percentage of people in a census tract with incomes below 185% of poverty):
 - 0% to 20.0%
 - 20.1% to 40.0%
 - Greater than 40.0%
3. Levels of racial concentration (percentage of people in a census tract who are of color or Hispanic ethnicity):
 - 0% to 15.0%
 - 15.1% to 50.0%
 - Greater than 50.0%

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4. Racially Concentrated Areas of Poverty (RCAP), as defined in the FHEA. Census tracts with:
 - More than 50% of the population being of color or Hispanic ethnicity; AND
 - More than 40% of the population having an income below 185% of poverty
5. Levels of elementary school segregation (using a classification developed by Tom Luce and Myron Orfield¹):
 - Segregated, non-white
 - Integrated
 - Predominantly white

The following table (which corresponds with Map 1) shows the share of selected developments and units in each of the FHEA opportunity areas, along with the share of all households, lower-income households, and people in poverty in each area. The FHEA opportunity areas were developed under the direction of the Metropolitan Council with input from a wide range of researchers and stakeholders, including the Institute for Metropolitan Opportunity, which played a key role in the cluster analysis of community characteristics that defined the areas.

Table 1: Distribution of Minnesota Housing's 9% Tax Credits in the Metro Area by FHEA Cluster

FHEA Cluster	All Households		Lower Income Households		Population in Poverty		Housing Tax Credit Developments/Units (MHFA 9% selections)									
							Developments		HTC Units		Rehab Units		New Construction Units		Rehab/New Construction Combined Units	
	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share
Green	173,720	15.5%	97,905	24.1%	86,532	39.7%	8	29.6%	529	34.2%	315	48.5%	158	18.8%	56	100.0%
Yellow	319,710	28.6%	137,840	33.9%	71,946	33.0%	7	25.9%	403	26.1%	179	27.6%	224	26.6%	-	0.0%
Blue	559,242	50.0%	154,708	38.1%	53,133	24.3%	11	40.7%	566	36.6%	155	23.9%	411	48.8%	-	0.0%
Rural	64,766	5.8%	16,117	4.0%	6,628	3.0%	1	3.7%	49	3.2%	-	0.0%	49	5.8%	-	0.0%
Total	1,117,438	100%	406,570	100%	218,239	100%	27	100%	1,547	100%	649	100%	842	100%	56	100%

Table Notes:

- Poverty and lower income households are based on 2007-2011 sample data from the American Community Survey (ACS).
- "Lower income" is defined here as household income less than \$50,000, regardless of household size. In contrast, the Census Bureau's "poverty" threshold varies by household size. For 2011, it was \$14,657 for a two-person household, \$17,916 for a three-person household, and \$23,021 for a four-person household.
- Although the 2008-2012 ACS data are now available, this analysis continues to use the 2007-2011 data because it is consistent with the data used to create the draft FHEA.
- LIHTC developments in this table include only Minnesota Housing 9% selections. It excludes 4% credits with tax-exempt bonds and sub-allocator credits.
- Selections are from 2009 through Round 1 of 2014. Some of the selected developments may have returned their credits.
- Of the 27 developments, 5 were allocated credits twice during the 6 year time period.

Map 1 and Table 1 show, Minnesota Housing is spreading tax credits and units throughout the region, giving tax-credit tenants options to access different types of opportunities. Of particular note:

¹ Myron Orfield and Tom Luce Jr., *Region: Planning the Future of the Twin Cities* (University of Minnesota Press, Minneapolis, 2010) pp. 293-294.

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- The green areas largely capture the urban core. These areas have 39.7% of the region's population living poverty and 34.2% of the selected units. The blue areas largely capture the outer-ring suburbs. These areas have 24.3% of the region's population living in poverty and 36.6% of the selected units. The blue area's share of Minnesota Housing's selected LIHTC units is greater than the area's share of the population living in poverty.
- With respect to concentrating or de-concentrated poverty, new construction is of particular interest. These new units have the potential to move lower-income households into or out of higher poverty areas. In contrast, rehabilitation serves the existing population and plays a critical role in ensuring that low-income households have a decent and safe place to live. As Table 1 shows, only 18.8% of the selected new-construction units are in the green areas, while 48.8% of selected new-construction units are in the blue areas. Minnesota Housing's selections are supporting integration (de-concentrating poverty) by increasing the access that lower-income households have to the blue areas, which have a smaller share of the region's population living in poverty.
- With respect to accessing quality schools, unit type is important. Efficiencies/SROs and 1-bedroom units are designed to serve singles and couples without children, while units with 2 or more bedrooms are designed to serve families with children. Thus, an analysis of access to quality schools should focus on units with 2 or more bedrooms. As Table 1a shows, the units that Minnesota Housing has selected for 9% credits in the blue areas (above average schools) are predominantly new construction with 2 or more bedrooms (63%). These units are increasing the opportunity for lower-income children to attend higher performing schools. In contrast, only 7% of the units in the green areas (below average schools) are new construction with 2 or more units. In addition, 8% are 2+ bedroom units in developments that had a combination of new construction and rehabilitation. Rehabilitation of 0-1 bedroom units accounts for most of the tax credit selections in the green areas (48%). These units serve singles and couples without children already living in the community.

Table 1a: Share of Unit Types (Number of Bedrooms) by Development Type and FHEA Cluster

FHEA Cluster	Total Tax Credit Units	Tax Credit Units with Known Bedroom Size*	Share of Units by Development Type and Bedroom Size						
			Rehabilitation		New Construction		Combined New Construction and Rehab		Total
			0-1 BR	2+ BR	0-1 BR	2+ BR	0-1 BR	2+ BR	
Green	529	522	48%	11%	23%	7%	2%	8%	100%
Yellow	403	403	26%	18%	15%	41%	0%	0%	100%
Blue	566	518	7%	23%	7%	63%	0%	0%	100%
Rural	49	50	0%	0%	0%	100%	0%	0%	100%
Total	1,547	1,493	26%	17%	14%	39%	1%	3%	100%

Conclusion: Consistent with the community classification established in the draft FHEA, Minnesota Housing has conducted a rigorous analysis of the allocation of its 9% credits over the past 6 years. The facts bear out that Minnesota Housing's allocation of 9% tax credits under the Agency's Qualified Allocation Plan provides tenants an array of opportunities.

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Supplemental Tables

The following tables provide a similar break out of tax credit developments and units as Table 1 but use geographies based on the share of people below 185% of poverty, share of people of color, racially concentrated areas of poverty (RCAP), and elementary school segregation. Tables 2-5 respectively correspond to Maps 2-5.

Table 2: Distribution of Minnesota Housing's 9% Tax Credits in the Metro Area by Share of Population below 185% of Poverty

Census Tracts by Share of People below 185% of Poverty	All Households		Lower Income Households		Population in Poverty		Housing Tax Credit Developments/Units (MHFA 9% selections)									
							Developments		HTC Units		Rehab Units		New Construction units		Rehab/New Construction Combined Units	
	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share
0.9-20%	636,055	56.9%	158,686	39.0%	45,790	21.0%	13	48.1%	701	45.3%	195	30.0%	506	60.1%	0	0.0%
20.1-40%	342,667	30.7%	158,877	39.1%	68,398	31.3%	7	25.9%	407	26.3%	187	28.8%	220	26.1%	0	0.0%
40.1-100%	138,716	12.4%	89,007	21.9%	104,048	47.7%	7	25.9%	439	28.4%	267	41.1%	116	13.8%	56	100%
Total	1,117,438	100%	406,570	100%	218,236	100%	27	100%	1,547	100%	649	100%	842	100%	56	100%

Table 3: Distribution of Minnesota Housing's 9% Tax Credits in the Metro Area by Share of People of Color

Census Tracts by Share of People of Color	All Households		Lower Income Households		Population in Poverty		Housing Tax Credit Developments/Units (MHFA 9% selections)									
							Developments		HTC Units		Rehab Units		New Construction units		Rehab/New Construction Combined Units	
	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share
1.3-15%	449,834	40.3%	120,954	29.7%	36,124	16.6%	8	29.6%	412	26.6%	155	23.9%	257	30.5%	0	0.0%
15.1-50%	548,205	49.1%	212,268	52.2%	91,779	42.1%	13	48.1%	731	47.3%	227	35.0%	504	59.9%	0	0.0%
50.1-95%	119,399	10.7%	73,348	18.0%	90,332	41.4%	6	22.2%	404	26.1%	267	41.1%	81	9.6%	56	100%
	1,117,438	100%	406,570	100%	218,236	100%	27	100%	1,547	100%	649	100%	842	100%	56	100%

Table 4: Distribution of Minnesota Housing's 9% Tax Credits in the Metro Area by Racially Concentrated Areas of Poverty (RCAP)

Racially Concentrated Area of Poverty	All Households		Lower Income Households		Population in Poverty		Housing Tax Credit Developments/Units (MHFA 9% selections)									
							Developments		HTC Units		Rehab Units		New Construction units		Rehab/New Construction Combined Units	
	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share
In RCAP	93,276	8.3%	61,037	15.0%	81,490	37.3%	6	22.2%	404	26.1%	267	41.1%	81	9.6%	56	100%
Outside of RCAP	1,024,162	91.7%	345,533	85.0%	136,746	62.7%	21	77.8%	1,143	73.9%	382	58.9%	761	90.4%	0	0.0%
	1,117,438	100%	406,570	100%	218,236	100%	27	100%	1,547	100%	649	100%	842	100%	56	100%

Notes:

- Poverty and lower income households are based on 2007-2011 sample data from the American Community Survey (ACS).
- "Lower income" is defined here as household income less than \$50,000, regardless of household size. The Census Bureau's "poverty" threshold varies by household size. For 2011, it was \$14,657 for a two-person household, \$17,916 for a three-person household, and \$23,021 for a four-person household.
- Even though 2008-2012 ACS data are now available, this analysis continues to use the 2007-2011 data because it is consistent with the data used to create the draft FHEA.
- LIHTC developments in this table include only Minnesota Housing 9% selections. It excludes 4% credits with tax-exempt bonds and sub-allocator credits.
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- Of the 27 developments, 5 were allocated credits twice during the 6 year time period.

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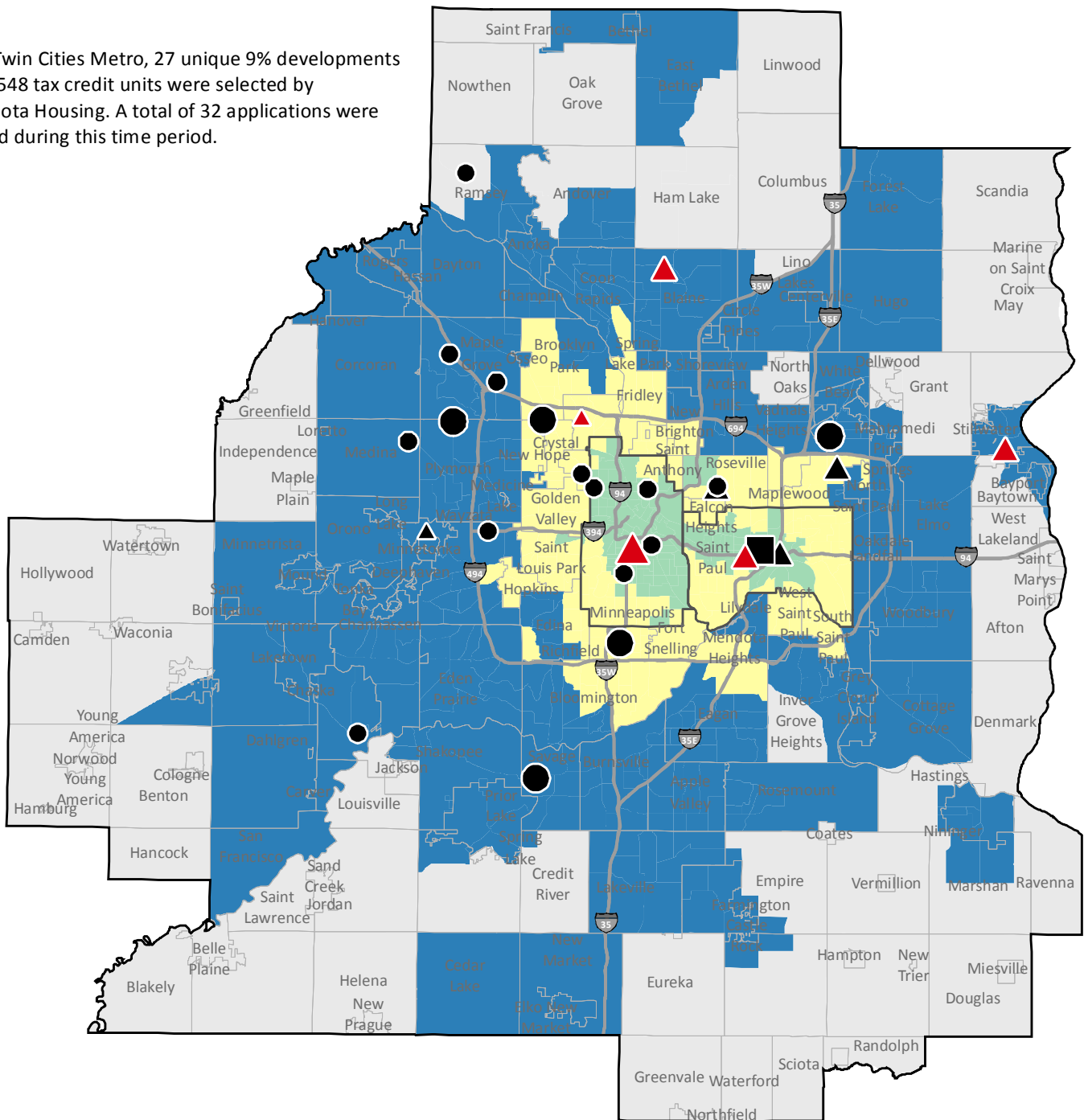
Table 5: Distribution of Minnesota Housing's 9% Tax Credits in the Metro Area by School Type

School Enrollment Type	All Households		Lower Income Households		Population in Poverty		Housing Tax Credit Developments/Units (MHFA 9% selections)									
							Develop-ments		HTC Units		Rehab Units		New Construction units		Rehab/New Construction Combined Units	
	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share	#	Share
Segregated, Non-White							10	37.0%	619	40.0%	337	51.9%	226	26.8%	56	100%
Integrated, Race and Ethnicity							14	51.9%	799	51.6%	232	35.7%	567	67.3%	0	0.0%
Pre-dominantly White							3	11.1%	129	8.3%	80	12.3%	49	5.8%	0	0.0%
							27	100%	1,547	100%	649	100%	842	100%	56	100%
Table 5 does not have general data on households and poverty. These data come from the American Community Survey and are aggregated at the census tract level by the Census Bureau. The school geographies are based on elementary school boundaries, which are not aligned with and cross over census tract boundaries.																

APPENDIX A Minnesota Housing 9% Tax Credit Selections 2009 Round 1 - 2014 Round 1

Map 1

In the Twin Cities Metro, 27 unique 9% developments with 1,548 tax credit units were selected by Minnesota Housing. A total of 32 applications were selected during this time period.



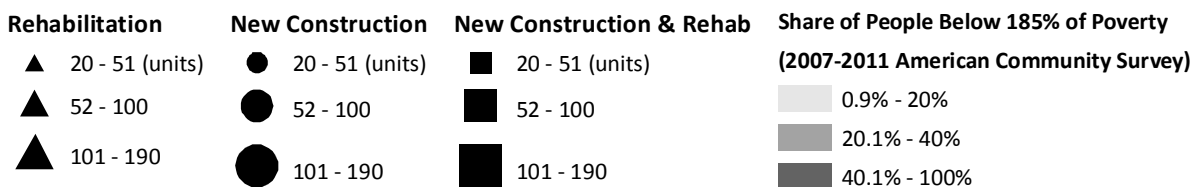
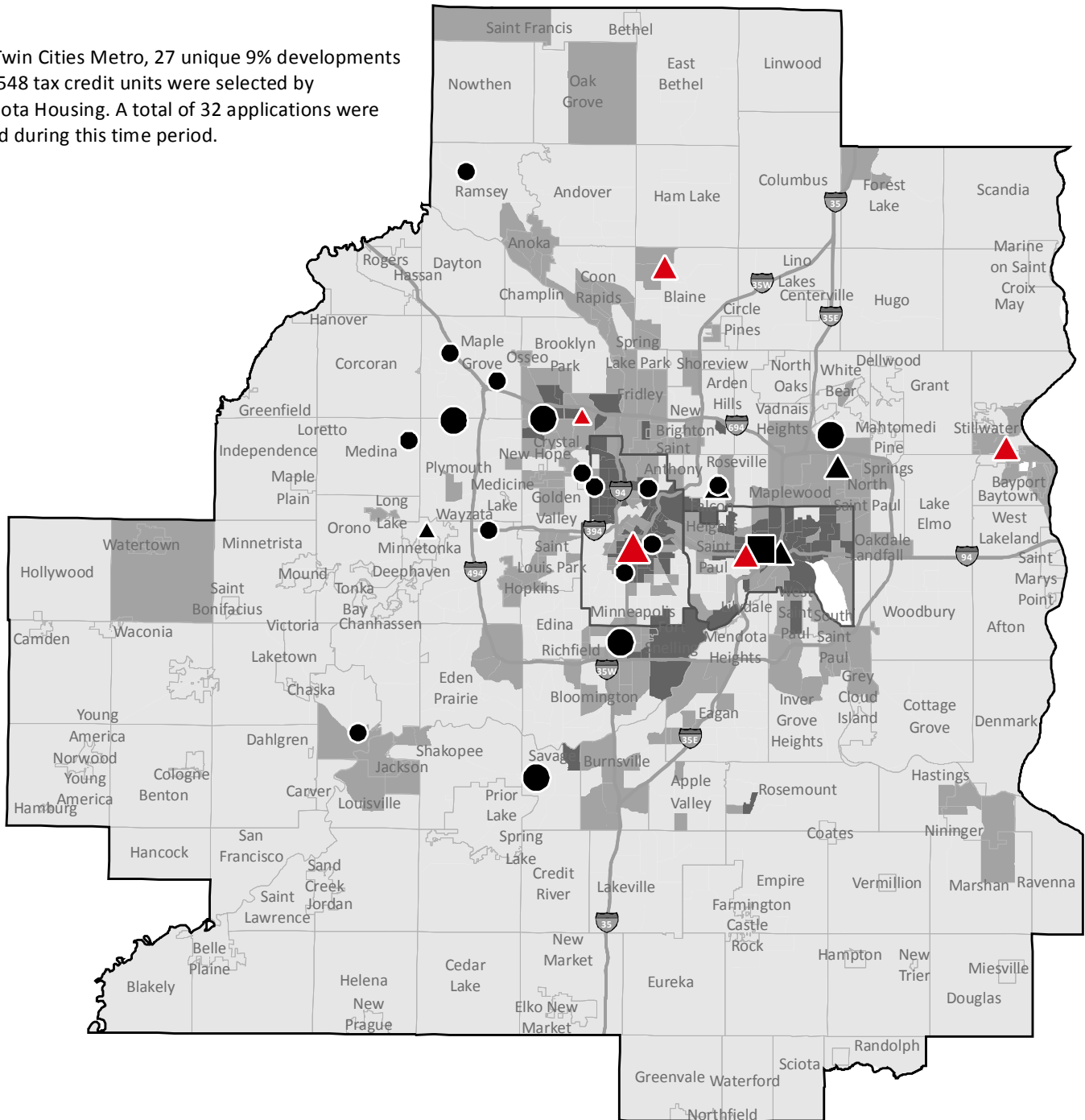
Rehabilitation	New Construction	New Construction & Rehab	Fair Housing & Equity Assessment
▲ 20 - 51 (units)	● 20 - 51 (units)	■ 20 - 51 (units)	Opportunity Clusters
▲ 52 - 100	● 52 - 100	■ 52 - 100	Green
▲ 101 - 190	● 101 - 190	■ 101 - 190	Yellow
▲ Red color denotes project received selection points for federally subsidized units.			Blue
			Grey Rural or Unsewered



APPENDIX A Minnesota Housing 9% Tax Credit Selections 2009 Round 1 - 2014 Round 1

Map 2

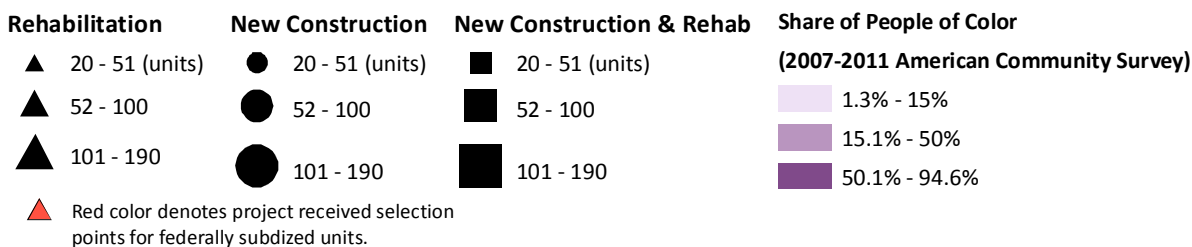
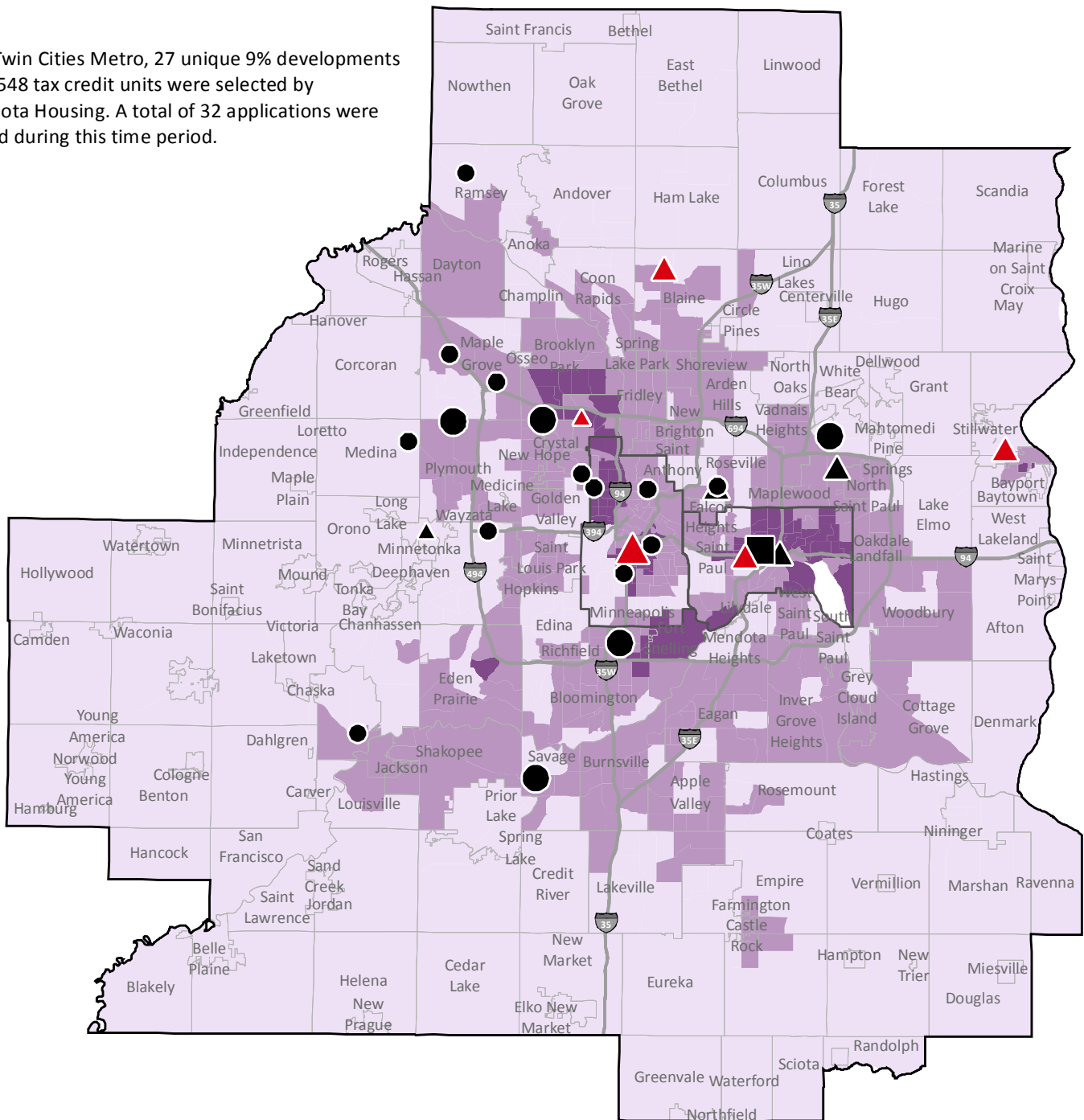
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APPENDIX A Minnesota Housing 9% Tax Credit Selections 2009 Round 1 - 2014 Round 1

Map 3

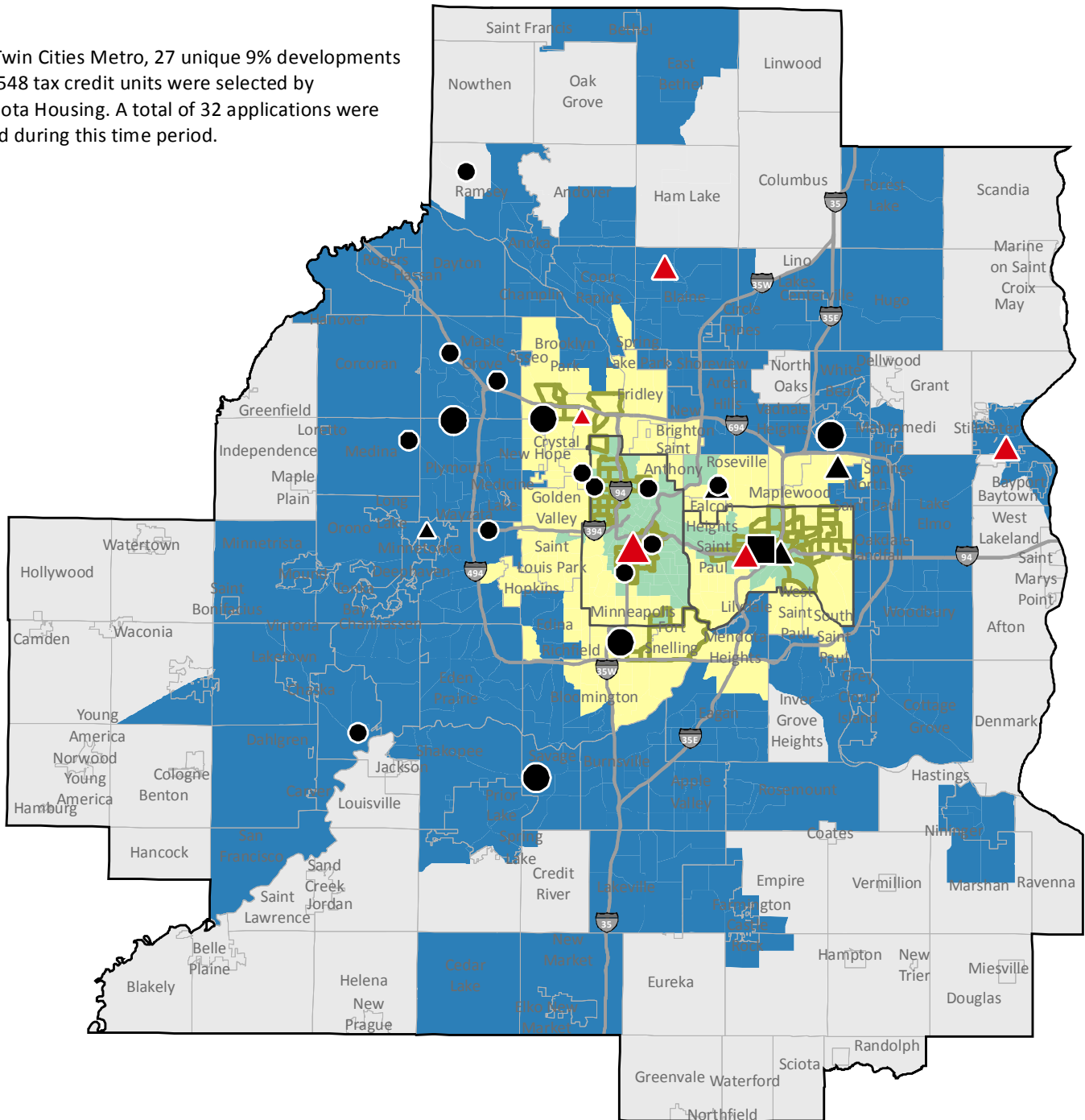
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APPENDIX A Minnesota Housing 9% Tax Credit Selections 2009 Round 1 - 2014 Round 1

Map 4

In the Twin Cities Metro, 27 unique 9% developments with 1,548 tax credit units were selected by Minnesota Housing. A total of 32 applications were selected during this time period.



Rehabilitation	New Construction	New Construction & Rehab	Fair Housing & Equity Assessment Opportunity Clusters	Racially Concentrated Areas of Poverty
▲ 20 - 51 (units)	● 20 - 51 (units)	■ 20 - 51 (units)	Green	
▲ 52 - 100	● 52 - 100	■ 52 - 100	Yellow	
▲ 101 - 190	● 101 - 190	■ 101 - 190	Blue	
▲ Red color denotes project received selection points for federally subsidized units.			Grey Rural or Unsewered	

DRAFT | HTC Consolidated Database as of 12-19-2013. Could include projects with tax credits allocated but returned at a later date.

