Housing Aid Programs:
A Guide for Minnesota Legislators

Emily Shapiro
February, 1980

State of Minnesota
House of Representatives
Research Department
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PREFACE

Very few public issues have as great an impact on our lives as housing. We use it to measure the strength of our economy. We describe the quality of our lives by describing the quality of our dwellings. The vibrance of a city frequently depends on the age, condition and location of its housing stock. Because of this, many public programs have been established to subsidize the purchase, construction and rental of housing units. So many in fact, that it is hard to keep them all straight!

In spite of this, we found that nowhere was there a single document outlining the major federal, state and local housing programs, and describing how they operate and interrelate in the state of Minnesota. This report, Housing Aid Programs: A Guide for Minnesota Legislators, is an attempt to bridge that gap, with particular emphasis on the kinds of information needed by state legislators to address constituent concerns and formulate state housing policy.

The report is a reference document on housing aid. It does not address the quality of housing, housing financing alternatives, the need for housing, or the structure of agencies which administer housing aid programs. Furthermore, there is no attempt to provide policy alternatives.

The report was developed and written by Emily Shapiro, Legislative Analyst in the Minnesota House of Representatives Research Department. She was assisted, in part, by Ann Julsrud, research assistant in the Research Department and by Jackie Ballard, secretary, who typed numerous drafts.

Legislators who have questions regarding housing programs or this report may contact Emily Shapiro in the House of Representatives Research Department, 17 State Capitol, 296-5041.

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INTRODUCTION

The Great Depression of the 1930's left a legacy of ongoing attempts by the federal government to solve or alleviate a number of widespread social problems in this nation. One area of increasing government concern has been housing; specifically, how to improve the availability, cost and condition of residential housing. As a result, for more than forty years a significant portion of the federal budget has been allocated to programs designed to stimulate housing construction and rehabilitation, provide direct financial aid to lower income persons, and expand the availability of mortgage loans. More recently, during the 1970's Minnesota has been a leader in devising and funding state housing programs to complement these federal efforts. As a result, there exists today a vast and, at times, confusing array of federal and state housing programs, encompassing a complex set of direct housing assistance programs, community development programs, and mortgage activities. These housing programs are administered by numerous government agencies and are funded through a multitude of budgetary accounts and financing mechanisms.

This report, Housing Aid Programs: A Guide for Minnesota Legislators (hereafter Housing Guide), outlines and describes the major federal, state and local housing programs, and attempts to clarify how they operate and interrelate in the state of Minnesota.

In using this Housing Guide, however, one should keep in mind that there are a number of issues which it does not address. First, the report concentrates on government housing programs and does not answer questions regarding the nature and physical condition of the housing stock in Minnesota. The only comprehensive set of hard data on housing stock condition currently available is derived from the 1970 Census, and these data are no longer very accurate. An analysis of housing stock in Minnesota using 1980 census data will be available in late 1980 or 1981.

Nor does the Housing Guide specifically address and compare alternative financing mechanisms for housing purchase and development. This exclusion does not mean that the subject is unimportant; indeed, in recent years a number of innovative methods have been used both by governments to finance community and housing development, and by individuals to finance home purchases. It was felt that this area was important enough to require a separate study of its own.

Third, this report does not attempt to assess the nature and extent of the need for housing in the nation or the state, nor does it address the question of who should receive assistance, how much should be given, and what kind of aid is most desirable. The Housing Guide, therefore, makes no policy choices, but merely describes the policy decisions already made by federal and state governments, as evidenced by the housing programs that have been authorized and implemented by them.

Finally, this study does not describe the organizational structure of the various federal and state agencies administering housing programs. Where relevant, however, the appropriate regional unit of the agency has been identified in the description of each housing program.

The Housing Guide is organized in the following manner. The first chapter describes ten federal programs which, by means of federal appropriations, offer direct housing subsidies to either low and moderate-income persons, or to public and private developers of low and moderate-income housing. The discussion of each program is broken down into sections which describe the nature and scope of the program, its eligibility requirements, where it is administered locally, which federal statute authorizes the program and, where relevant, the program's current status.

The second chapter discusses federal efforts to address the housing needs of the country by means other than direct subsidies. While these methods vary in nature, they all address the same goal: the stimulation of private capital for single and multi-family housing loans.

Using the same structure as the first chapter, the third chapter of the Housing Guide describes the statewide housing programs administered by the Minnesota Housing Finance Agency (MHFA). Briefly, these programs supply financial assistance to low and moderate-income owners and purchasers of housing, as well as to developers of low and moderate-income multi-family housing. The MHFA also targets housing aid to specific low and moderate-income groups within the state of Minnesota, including the elderly, the handicapped, the developmentally disabled, and Native Americans. MHFA programs are funded by means of one or more of the following methods: housing revenue bond proceeds, appropriations and revolving loan funds. For each program discussed in chapter three, the specific funding source has been identified.

Lastly, chapter four of the Housing Guide addresses the nature and purpose of housing and redevelopment authorities (HRAs) operating at the municipal, county and multi-county level in Minnesota. Generally speaking, these HRAs function as disseminators of federal and state housing assistance and, more recently, as administrators of local housing finance and development programs.

The chart on the facing page, "Types of Housing Assistance by Administering Government Agency", is intended to serve only as a quick reference aid to the materials contained in this Housing Guide. For information on the substance and scope of any particular housing program, please refer to the appropriate page number indicated in each box next to the name of the program.

The names of the administering government agencies have been abbreviated in the chart. The following is a list of their full names:

HUD	Department of Housing and Urban Development
FmHA	Farmer's Home Administration
FHA	Federal Housing Administration
VA	Veteran's Administration
FNMA	Federal National Mortgage Association
GNMA	Government National Mortgage Association
FHLMC	Federal Home Loan Mortgage Corporation
FHLB	Federal Home Loan Banks
MHFA	Minnesota Housing Finance Agency
HRAs	Housing and Redevelopment Authorities

TYPES OF HOUSING ASSISTANCE BY ADMINISTERING GOVERNMENT AGENCY

Administering Government Agency

Types of Housing Assistance

	HUD	FmHA	FHA, VA, FNMA GNMA, FHLB, FHLMC	MHFA	HRA's
Rent Subsidy	§8 Rental Assistance Program. *(Housing Guide, p. 6)*			Assists in the allocation of HUD §8 funds. *(Housing Guide, p. 7)*	Assists in the allocation of HUD §8 funds. *(Housing Guide, p. 7)*
Rehab Loans	§312 Rehabilitation Loan Program. *(Housing Guide, p. 15)* §235 Homeownership Program. *(Housing Guide, p. 10)*	§502 Rural Homeownership Loan Program. *(Housing Guide, P. 16)* §515 Rural Rental Housing Program. *(Housing Guide, p. 18)*		Home Improvement Loan Program. *(Housing Guide, p. 28)*	Assists in administration of §515 Program. *(Housing Guide, p. 18)* May assist in disbursement of MHFA rehabilitation funds. *(Housing Guide p. 28)*
Rehab Grants				Home Improvement Grant Program. *(Housing Guide, p. 28)* 3 and 4 Bedroom Rental Housing Grant Program. *(Housing Guide, p. 32)*	May assist in disbursement of MHFA rehabilitation funds. *(Housing Guide, p. 28)*
Multi-Family Mortgages, Grants & Interest Credits	§236 Rental Assistance Program. *(Housing Guide, p. 9)*	§515 Rural Rental Housing Program. *(Housing Guide, p. 18)*		Multifamily Development Program. *(Housing Guide, p. 24)* 3 and 4 Bedroom Rental Housing Grant Program. *(Housing Guide, p. 32)*	Assists in administration of §515 Program. *(Housing Guide, p. 18)* May sponsor MHFA multifamily developments. *(Housing Guide, p. 24)* May administer local housing program, financed by local revenue bonds or other financing mechanisms. *(Housing Guide, pp. 34-39)*
Single Family Mortgages & Interest Credits	§235 Homeownership Program. *(Housing Guide, p. 10)*	§502 Rural Homeownership Loan Program. *(Housing Guide, p. 16)*		Affordable Home Mortgage Program. *(Housing Guide, p. 26)* Homeownership Assistance Fund. *(Housing Guide, p. 26)*	May administer local housing program financed by local revenue bonds or other financing mechanisms. *(Housing Guide, pp. 34-39)*
Public Housing	Low Rent Public Housing Program. *(Housing Guide, p. 8)*				Administers federal low rent public housing projects. *(Housing Guide, p. 8)*
Mortgage Insurance	*§236 Rental Assistance Program.* *(Housing Guide, p. 9)* §235 Homeownership Program. *(Housing Guide, p. 10)*		FHA Mortgage Insurance. *(Housing Guide, p. 19)* VA Mortgage Insurance. *(Housing Guide, p. 20)*		
Mortgage Market Activities			FNMA (Fannie Mae) *(Housing Guide, p. 21)* GNMA (Ginnie Mae) *(Housing Guide, p. 21)* FHLB *(Housing Guide, p. 22)* FHLMC (Freddie Mac) *(Housing Guide, p. 22)*		
Indian Housing				Indian Loan and Grant Programs. *(Housing Guide, p. 29)*	
Aid to Elderly/ Handicapped	§202 Rental Housing for the Elderly/Handicapped. *(Housing Guide, p. 11)*			Accessibility Grant Program. *(Housing Guide p. 28)* Developmentally Disabled Program. *(Housing Guide, p. 31)*	May assist in administration of §202 rental projects for the elderly or handicapped. *(Housing Guide, p. 11)*
Community Development	Community Development Block Grants. *(Housing Guide, p. 12)* Urban Homesteading. *(Housing Guide, p. 14)* §312 Rehabilitation Loans. *(Housing Guide, p. 15)*				Assists in allocation of CDBG funds and administration of CDBG programs. *(Housing Guide, p. 12)* Assists in the transfer of homesteading properties. *(Housing Guide, p. 14)*

CHAPTER ONE

FEDERAL HOUSING SUBSIDY PROGRAMS

INTRODUCTION

The federal government provides housing assistance through ten major subsidy programs: The Department of Housing and Urban Development (HUD) administers eight of the programs and the Farmers Home Administration (FmHA) runs the remaining two. While the U.S. Congress appropriates the funds used in these ten programs, in many cases state and local housing agencies are used by the federal government to disseminate the aid to those individuals and families in need. In past years, approximately two percent of the federal budget for housing assistance has been made available to Minnesota.

The following is a list of the ten housing subsidy programs discussed in this chapter.

Housing Subsidy Programs Administered by HUD

- Lower-income Rental Assistance (Section 8 Program).
- Low Rent Public Housing.
- Rental Housing Assistance for Moderate and Lower Income Families (Section 236 Program).
- Homeownership Assistance (Section 235 Program).
- Loans for Rental Housing for the Elderly and Handicapped (Section 202 Program).
- Community Development Block Grant Program.
- Urban Homesteading Program.
- Rehabilitation Loans (Section 312 Program).

Housing Subsidy Programs Administered by FmHA

- Rural Homeownership Loans (Section 502 Program).
- Rural Rental Housing (Section 512 Program).

LOWER-INCOME RENTAL ASSISTANCE (Section 8 Program)

NATURE OF FEDERAL AID

A rent subsidy for lower income families to help them afford decent housing in the private sector.

NATURE OF THE PROGRAM

HUD makes up the difference between what a lower income household can afford and the fair market rent for an adequate housing unit. Eligible tenants pay no more than 25 percent of adjusted income toward rent. Rental units must meet certain standards of safety and sanitation, and rents must fall within the range of "fair market rents" as determined by HUD. This rental assistance may be used in existing housing, in new construction or in substantially or moderately rehabilitated units. Different procedures apply in each case:

- Existing housing: Local public housing agencies (such as housing redevelopment authorities, the Metropolitan Council) administer the existing housing program by certifying eligible tenants, inspecting the units proposed for subsidy, and contracting with approved landlords for payment. Tenants execute separate leases with landlords to pay their share of the rent.

- Moderate rehabilitation: Under the moderate rehabilitation program, authorized in 1978 and implemented in 1979, public housing authorities accept proposals from housing owners for housing assistance payments on specific projects. Unlike the existing housing program, the subsidy is tied to the housing units, not the tenants.

- New construction and substantial rehabilitation: Nonprofit and profit-motivated developers, alone or together with public housing agencies, submit proposals for substantial rehabilitation or new construction in response to invitations from HUD, or the Minnesota Housing Finance Agency. On approval of the proposal, HUD contracts to subsidize those units to be occupied by eligible households.

APPLICANT ELIGIBILITY

Tenants must be lower income households with incomes amounting to 80 percent of the area median income or less. Additionally, tenants must be in a family of two or more persons, elderly, handicapped, or displaced by a declared disaster. Project sponsors may be private owners, profit-motivated, nonprofit or cooperative associations, public housing agencies or the state housing finance agency.

SCOPE OF THE PROGRAM

--*National*: Approximately $1.5 billion dollars have been appropriated each year since the program's inception in 1975.

--*Minnesota*: In Fiscal Year 1979, $13,400,000 was allocated to the Section 8 program in Minnesota. Cumulative number of section 8 units funded or reserved through Fiscal Year 1979: approximately 24,500.

LOCAL ADMINISTRATION

Funds are disbursed by HUD area office, the Minnesota Housing Finance Agency and local housing and redevelopment authorities.

LEGAL AUTHORITY

Section 8, U.S. Housing Act of 1937, (P.L. 73-479), as added by the Housing and Community Development Act of 1974 (P.L. 93-383).

LOW RENT PUBLIC HOUSING

NATURE OF FEDERAL AID

Federal aid to local public housing agencies to provide decent shelter for low-income residents at affordable rents.

NATURE OF THE PROGRAM

As administered by HUD, the low rent public housing program funds the construction, purchase or rehabilitation, and a portion of the operating expenses of rental projects that are owned and managed by local government agencies and made available to lower income tenants at reduced rents. Public housing is generally limited to low and moderate income families and to elderly, handicapped or displaced persons. Rental and utility charges are limited to a total of not more than 25 percent of adjusted family income.

In addition to being a way of providing low income people with decent, low-cost housing, public housing has also been used as a means of increasing housing production. This policy differs from the philosophy behind HUD's more recent "Section 8 Program", (a program that has partially supplanted the public housing program), which subsidizes the "demand" end of the supply and demand equation and leaves production to private housing market forces.

APPLICANT ELIGIBILITY

Public housing agencies established by local governments in accordance with state law.

SCOPE OF THE PROGRAM

--*National:* As of Fiscal Year 1978, 1.2 million units were available for occupancy; 34,200 units were under construction, and 39,500 were in the preconstruction processing stage. Total number of dollars spent through Fiscal Year 1979: approximately $11,087,700,000.

--*Minnesota:* In Fiscal Year 1979, $2,800,000 were allocated to the public housing program in Minnesota. As of Fiscal Year 1979, over 9,000 public housing units have been built or contracted for in this state.

LOCAL ADMINISTRATION

HUD area office and local housing and redevelopment authorities.

LEGAL AUTHORITY

U.S. Housing Act of 1937, as amended, (P.L. 75-412); Title II, Housing and Community Development Act of 1974 (P.L. 93-383).

RENTAL HOUSING ASSISTANCE FOR MODERATE AND LOWER INCOME FAMILIES (Section 236 Program)

NATURE OF FEDERAL AID

Mortgage insurance, interest reduction and operating subsidies to project owners to reduce rents for lower income households.

NATURE OF THE PROGRAM

The Section 236 Program, administered by HUD, and presently inactive, provided mortgage insurance and interest subsidies to developers of new and substantially rehabilitated rental projects in which a portion of the housing units were made available to lower-income persons at reduced rates. In contrast to the Section 8 program, which replaced this program, federal aid here was primarily directed to the financing of the housing project rather than to the rental payment of the lower income tenant. Additional subsidies, however, have been provided on behalf of some of the occupants through "deep" subsidy payments. These subsidies permitted rents for some units to be reduced to 25 percent of the tenant's income without jeopardizing the financial viability of the project.

APPLICANT ELIGIBILITY

Eligible applicants included nonprofit, limited-dividend or cooperative organizations, and private builders or investors who sell projects to such organizations. Both tenants who can afford fair market rents and those who cannot may occupy these projects; however, only the latter will be subsidized.

SCOPE OF THE PROGRAM

--*National:* Cumulative activity through the end of Fiscal Year 1977: 4,217 projects with 460,188 units insured for $7.9 billion; active rent supplement contracts for approximately 180,000 units. Federal funds allocated through Fiscal Year 1979: $3,288,200,000.

--*Minnesota:* Commitments for approximately 10,700 units have been made in Minnesota through Fiscal Year 1979.

CURRENT STATUS

INACTIVE. The Nixon Administration's housing subsidy moratorium of January 3, 1973 suspended this program; current activity consists mainly of funding commitments entered into before the moratorium, and amending existing contracts. Failure to reactivate the program may be due, in part, to the large default rate on Section 236 mortgages: more than 14 percent of the approximately 4,000 mortgages written through 1976 had been assigned to HUD by the mortgagee or foreclosed by the end of that year.

LOCAL ADMINISTRATION

HUD area office.

LEGAL AUTHORITY

Section 236, National Housing Act of 1934 (P.L. 73-479), as added by Section 201, Housing and Urban Development Act of 1968 (P.L. 90-448).

HOMEOWNERSHIP ASSISTANCE PROGRAM (Section 235 Program)

NATURE OF FEDERAL AID

Mortgage insurance and interest reduction subsidy for low and moderate income homebuyers.

NATURE OF THE PROGRAM

In contrast to the three preceding federal programs, which provide housing assistance to lower-income tenants, the Section 235 program provides aid to low and moderate-income home purchasers. HUD insures mortgages and makes monthly payments to lenders to reduce the interest paid by eligible homebuyers to as low as 4 percent. The homeowner must contribute 20 percent of adjusted income to monthly mortgage payments and must make a downpayment of at least 3 percent of the cost of acquisition.

APPLICANT ELIGIBILITY

Homebuyers with an adjusted income of up to 95 percent of the area median. There is no restriction on the value of other assets owned by the applicant.

SCOPE OF THE PROGRAM

--*National*: Cumulative activity through September, 1977: 478,553 units insured. Funds spent through Fiscal Year 1979: $1,602,000,000.

--*Minnesota:* From 1976 to 1979 mortgages for approximately 557 units have been subsidized. There is no additional funding commitment for Fiscal Year 1979.

CURRENT STATUS

Active in its revised form. The original Section 235 Program, begun in 1968, was suspended in 1973 as part of the national moratorium on federal housing assistance programs. It had permitted families to buy homes with only a minimal downpayment and with mortgage interest rates as low as one percent. As a result, many families who were unable to handle the financial burden became homeowners under this program and the default rate on the mortgages was as high as 15 percent. When the program was reinstated in 1975, tighter restrictions on downpayments and interest rates were imposed to avoid high default rates in the future.

LOCAL ADMINISTRATION

HUD area office.

LEGAL AUTHORITY

Section 235, National Housing Act of 1934, as added by Section 101, Housing and Urban Development Act of 1968 (P.L. 90-448).

LOANS FOR RENTAL HOUSING FOR THE ELDERLY OR HANDICAPPED (Section 202 Program)

NATURE OF FEDERAL AID

Federal loans to nonprofit organizations developing rental or cooperative housing for elderly or handicapped persons.

NATURE OF THE PROGRAM

Under the original Section 202 program, begun in 1959, direct loans were made at 3 percent interest and the program primarily benefitted elderly and handicapped persons whose incomes were too high to qualify for public housing. The program was suspended in 1970 and reinstituted in 1974, with the interest rate set at a level closer to that of conventional financing. Participation in the Section 8 rental housing program is required for at least 20 percent of the Section 202 units, thus reducing those rents to a maximum of 25 percent of the household's income. To date, the Section 202 program has been used primarily to finance housing for the elderly.

APPLICANT ELIGIBILITY

Private, nonprofit sponsors may qualify for loans. Households of one or more persons, the head of which is at least 62 years old or is handicapped, are eligible to rent Section 202 units.

SCOPE OF THE PROGRAM

--*National:* Under the original Section 202 program, loans for 45,275 units were approved. After the program was reactivated in 1974, loans for approximately 72,400 units were approved or were anticipated through Fiscal Year 1978.

--*Minnesota:* In Fiscal Year 1979, $3,300,000 were allocated by HUD to the Section 202 program in Minnesota

LOCAL ADMINISTRATION

HUD area office.

LEGAL AUTHORITY

Section 202, Housing Act of 1959 (P.L. 86-372).

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

NATURE OF FEDERAL AID

Federal grants to promote community development and renewal.

NATURE OF THE PROGRAM

Under the Community Development Block Grant Program (CDBG), HUD awards "block" grants to local governments to fund a wide range of community development activities. Under this single program, block grants finance activities previously eligible for federal aid under a number of superceded categorical grant programs, such as Urban Renewal, Neighborhood Development Grants, Model Cities, Water and Sewer Grants, Neighborhood Facilities Grants, and Open Space, Urban Beautification and Historic Preservation Grants. In contrast to these earlier programs, under CDBG, spending priorities are left to the discretion of local governments. However, local governments must observe certain guidelines enumerated in the federal law, such as the requirement that the grants be used to help provide adequate housing, a suitable living environment and expanded opportunities for lower-income groups.

APPLICANT ELIGIBILITY

Metropolitan cities and qualified urban areas are guaranteed an amount called an "entitlement". The entitlement is based on need, calculated by a formula that takes into account population, poverty, overcrowded housing, age of housing and growth lag. Smaller communities compete for the remaining "discretionary" funds. However, local governments that have participated in the past in former categorical grant programs, but who do not qualify for an equivalent block grant, are "held harmless" for three years; that is, they are funded at the same average level in order to complete projects already underway. After three years, the "hold harmless" aid is phased out.

Of each year's appropriation, 3 percent goes directly into the Secretary's discretionary fund and is available for contingencies, emergencies and other special purposes. The rest is divided between standard metropolitan statistical areas (generally cities of at least 50,000 in population and urban counties of 200,000 or more) and non-metropolitan areas, with 80 percent earmarked for the former and 20 percent for the latter. Money for metropolitan areas is allocated first to entitlement and hold-harmless grants, and the balance is available for discretionary grants. Non-metropolitan funds go first to hold harmless grants with the remainder reserved for discretionary grants.

SCOPE OF THE PROGRAM

--*National:* $10.9 billion dollars has been authorized and appropriated for fiscal years 1978 to 1980. More than 1300 communities received entitlement grants in each of the first two years of the program's operation. Approximately 1800 communities qualified for discretionary grants in both years.

--*Minnesota:* During fiscal year 1978, HUD awarded $39,729,000 to the following Entitlement cities: Bloomington, Chisholm, Duluth, East Grand Forks, Hibbing, Hopkins, Minneapolis, Moorhead, Rochester, St. Cloud, St. Louis Park, St. Paul and South St. Paul. Grants totalling $3,670,000 were made to the following other cities and counties: Coon Rapids Dakota County, Scott County, Waconia, Hopkins, Columbia Heights, and White Bear Lake. Additionally, Hennepin County received $3,084,000 as an urban county, making a grand total of $46,483,000 for the state.

LOCAL ADMINISTRATION

Local governments and housing and redevelopment authorities.

LEGAL AUTHORITY

Title 1, Housing and Community Development Act of 1974 (P.L. 93-383) as amended by Title 1, Housing and Community Development Act of 1977 (P.L. 95-128).

URBAN HOMESTEADING PROGRAM

NATURE OF FEDERAL AID

Sale of vacant HUD-held properties to eligible buyers for a token sum.

NATURE OF THE PROGRAM

The Urban Homesteading program is a national demonstration program transferring HUD properties to local governments in order to revitalize declining neighborhoods and reduce the federal inventory of defaulted mortgages.

Vacant HUD-held properties are transferred to local governments that have developed homesteading plans approved by HUD. Each city must devise a plan ensuring the availability of rehabilitation financing, technical assistance to homesteaders and all essential municipal services to targeted neighborhoods. The local governments then sell these properties for a token sum (as low as $1) to individuals or families. The homesteader must make repairs to meet minimum health and safety standards, and then occupy the property as a principal residence for at least three years. Within 18 months of occupying the property he must bring it up to local code standards. When the homesteader has fulfilled all of these requirements, he receives full title to the property.

APPLICANT ELIGIBILITY

Homesteaders must have been equitably selected by each participating city. Cities are chosen as demonstration sites by HUD after submitting acceptable homesteading plans. In Minnesota, both Minneapolis and St. Paul have participated in this program.

SCOPE OF THE PROGRAM

--*National:* Between Fiscal Years 1976 and 1978, approximately $26 million have been appropriated for the Homesteading Program, plus an additional $5 million in rehabilitation funds.

--*Minnesota:* In Minneapolis, approximately 80 properties have been turned over by HUD to the city for homesteading. Because HUD has no defaulted properties in its inventory in St. Paul, it has not been able to turn over any properties to that city for homesteading.

CURRENT STATUS

Being converted from a demonstration program to an operating program.

LOCAL ADMINISTRATION

Local governments and local housing and redevelopment authorities.

LEGAL AUTHORITY

Section 810, Housing and Community Development Act of 1974 (P.L. 93-383); Section 20, Housing Authorization Act of 1976 (P.L. 94-375).

REHABILITATION LOANS (Section 312 Program)

NATURE OF FEDERAL AID

Loans to assist rehabilitation in federally-aided Community Development Block Grant, Urban Homesteading, Urban Renewal and Code Enforcement areas.

NATURE OF THE PROGRAM

HUD makes loans for the rehabilitation of residential, mixed use and nonresidential properties which are located in federally-aided Community Development Block Grant, Urban Homesteading, Urban Renewal and Code Enforcement areas. The loans may be used to bring the property up to applicable health and safety codes, project or plan standards, or to provide adequate insulation and other weatherization items. Rehabilitation loans may not exceed $27,000 per dwelling unit or $50,000 for nonresidential properties.

APPLICANT ELIGIBILITY

Property owners in the above mentioned federally-aided areas, and business tenants whose leases have at least as long to run as the terms of the rehabilitation loan. The applicant must evidence the ability to repay the loan and be unable to secure necessary financing from other sources on comparable terms and conditions. Preference is given to low and moderate income applicants.

SCOPE OF THE PROGRAM

--*National:* From 1964 to 1977, rehabilitation loan commitments totalled approximately $471 million.

--*Minnesota:* $11.5 million was allocated to Minnesota in Fiscal Year 1979 for the Section 312 program. Of this amount, approximately $6.5 million was to be used for single family home rehabilitation, and $5 million for multi-family housing.

LOCAL ADMINISTRATION

HUD area office.

LEGAL AUTHORITY

Section 312, Housing Act of 1964 (P.L. 88-560), as amended.

RURAL HOMEOWNERSHIP LOAN PROGRAM (Section 502 Program)

NATURE OF FEDERAL AID

Low interest loans and mortgage loans to eligible borrowers to purchase, construct or rehabilitate rural homes and related facilities.

NATURE OF THE PROGRAM

The Farmers Home Administration (FmHA), an agency within the U.S. Department of Agriculture, issues loans to eligible buyers, as well as to contractors desiring to construct homes for eligible buyers. These loans are then sold to private financial institutions and the proceeds are returned to a revolving fund to finance other loans.

Qualifying homebuyers are eligible for credits to reduce the interest rate paid on the loan. Depending on the size of the borrower's income, interest rates range from approximately 1 percent to 9 percent. Loans may be used to:

--buy, build or rehabilitate rural homes.

--provide adequate water and sewage systems

--modernize homes (e.g., add central heating, modern kitchen and bathrooms), and

--under certain conditions, refinance existing debts on the home.

APPLICANT ELIGIBILITY

To be eligible for assistance under Section 502, the borrower must:

- live in a rural area or town with a population below 10,000 (As of fiscal year 1977, the following Minnesota towns with populations between 10,000 and 20,000 are also eligible: Bemidji, Cloquet, Fairmont, Faribault, New Ulm, Northfield, Owatonna and Worthington);
- be unable to obtain a mortgage elsewhere, and
- have an adjusted family income of $12,900 or less. To be eligible for an interest credit, the borrower must have an adjusted income of $8,500 or less and a net worth not exceeding $5,000.

As mentioned earlier, building contractors may also receive Section 502 funds to finance the construction of new rural homes. They may receive commitments from FmHA to provide financing if eligible housing applicants are located and funds are available.

SCOPE OF THE PROGRAM

--*National:* Number of loans made from 1962-1978: 1,231,817. Amount of money lent from 1962-1978: $18,691,344,902. 1979 estimate of money lent: $3,367,000,000.

--*Minnesota:* Between Fiscal Years 1973 and 1975, FmHA funded 4,044 units by way of loans totalling $66,596,200. In Fiscal Year 1979, $59,000,000 were allocated by FmHA to Minnesota.

LOCAL ADMINISTRATION

FmHA district office.

LEGAL AUTHORITY

Section 502, Housing Act of 1949 (P.L. 81-171).

RURAL RENTAL HOUSING (Section 515 program)

NATURE OF FEDERAL AID

Low interest loans for the construction, purchase or repair of rural multifamily rental housing.

NATURE OF THE PROGRAM

The FmHA issues mortgage loans to both nonprofit and profit-oriented sponsors to build, purchase or repair multifamily rental housing in rural areas for occupancy by low and moderate income families, and by persons aged 62 and older. In practice, the program has been almost exclusively a new construction program.

All loans are made at market interest rates; however, nonprofit and limited dividend sponsors are eligible for interest credits which effectively lower the interest rate on the loan, and supplement the rental payments of low and moderate income tenants (who pay below market rents). The loans are then sold by FmHA to private financial institutions, with the proceeds returned to a revolving fund to be used for future loans.

APPLICANT ELIGIBILITY

--*Borrowers:* Sponsors may be nonprofit, limited dividend or for profit. For-profit borrowers are ineligible for interest credits, and limited dividend sponsors are limited to an 8 percent yearly return on their investment. Nonprofit sponsors are required to be "broadly-based", i.e., at least 25 members and five directors, all of whom are community leaders. This ensures that the project has widespread community support.

--*Tenants:* Tenants must meet low or moderate income standards, except that most elderly tenants are not subject to this requirement. Tenants must also live in areas eligible to be served by FmHA. This includes towns under 10,000 in population, as well as the following towns having less than 20,000 in population: Bemidji, Cloquet, Fairmont, Faribault, New Ulm, Northfield, Owatonna and Worthington.

SCOPE OF THE PROGRAM

--*National:* Number of loans made from 1963-1978: 8,786. Amount of money lent between 1963-1978: $2,161,789,620. 1979 estimate of money lent: $868,000,000.

--*Minnesota:* Between Fiscal Years 1970 and 1976, FmHA issued approximately 200 loans with a value of $31,891,300. As of the end of 1975, 172 developments had been financed under this program. During Fiscal Year 1979, approximately $20,500,000 had been allocated to Minnesota by FmHA.

LOCAL ADMINISTRATION

FmHA district office and local housing and redevelopment authorities.

LEGAL AUTHORITY

Section 515, Housing Act of 1949 (P.L. 81-171).

CHAPTER TWO

FEDERAL MORTGAGE MARKET ACTIVITIES

Through the FHA and VA mortgage credit programs, the federal government insures and guarantees private mortgage loans. These activities are designed to stimulate housing production reduce cyclical swings in construction activity, increase access to mortgage credit and expand homeownership. Unlike the programs described in chapter one, which are subsidy programs targeted at low and moderate income persons, these two programs are primarily designed to stimulate the mortgage market for the benefit of homebuyers of all incomes.

FEDERAL HOUSING ADMINISTRATION (FHA)

NATURE OF FEDERAL AID

Mortgage insurance for single and multifamily housing loans.

NATURE OF THE PROGRAM

The Federal Housing Administration's (an office within HUD) primary mortgage program provides mortgage insurance for single family loans, with maximum interest rates, downpayment requirements and loan amounts set periodically by statute and regulation. The FHA also administers a number of higher-risk single and multifamily loan programs, including several programs that provide mortgage insurance for lower-income assisted housing.

APPLICANT ELIGIBILITY

Any person able to afford the downpayment and mortgage payments is eligible for FHA-insured mortgages.

SCOPE OF THE PROGRAM

Nationally, the number of loans outstanding through 1977 was: 4,824,574.
Unpaid principal balance: $89,641,000,000

LEGAL AUTHORITY

Section 203 of the 1934 National Housing Act (P.L. 73-479), and Section 237 of the 1934 Act, as added by Section 102, Housing and Urban Development Act of 1968 (P.L. 90-448).

VETERANS ADMINISTRATION (VA)

NATURE OF FEDERAL AID

Mortgage insurance for single family housing loans.

NATURE OF THE PROGRAM

The Veterans Administration guarantees and insures privately issued mortgage loans for eligible veterans. Maximum interest rates, downpayment requirements and loan amounts are periodically set by statute or rule.

APPLICANT ELIGIBILITY

Any veteran who can meet downpayment and mortgage payment requirements.

SCOPE OF THE PROGRAM

Since the program began in 1944, the VA has guaranteed or insured more than 9,000,000 home loans nationwide, worth more than $120,000,000. Approximately 4,000,000 such loans were outstanding at the end of Fiscal Year 1978.

LEGAL AUTHORITY

Title 38, United States Code, sections 1810 *et seq*.

SECONDARY MORTGAGE MARKET ACTIVITIES

The federal government aids the private housing market in yet another way through its activities in the mortgage market. Several government agencies and government-chartered corporations buy and resell privately written mortgages and mortgage-backed securities, thereby affecting the supply, cost and distribution of credit for housing purchase and construction. The purpose of these government activities is multifold: to make mortgage credit more accessible, to reduce the effect of cyclical declines in the home construction industry, and to encourage more lending in areas where credit is scarce. Related to these programs are the additional efforts of the federal government to allocate credit directly to housing by advancing funds to financial institutions for residential mortgage loans. The following is a brief description of these mortgage market programs.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA)

FNMA (known colloquially as "Fannie Mae") is a government-chartered corporation that purchases and sells privately written mortgage loans. FNMA's activities are intended to increase the number of privately written loans by offering financial institutions a means of liquidating those residential loans it already holds. This increases the availability of capital and the number of mortgage loans written overall. FNMA is particularly prone to purchase government-guaranteed and insured loans (FHA and VA) as a means of encouraging lenders to make these kinds of loans. However, it is not limited to buying and selling FHA and VA loans. FNMA's activities have also centered on encouraging lending in urban areas, where credit has traditionally been scarce, by purchasing loans from lenders who would otherwise have been reluctant to hold and service such loans themselves. As of December 1976, FNMA's portfolio included more than 1.5 million mortgages, with a total unpaid principal of nearly $33 billion, or about 5 percent of the total residential mortgage debt outstanding at that time. During Fiscal Year 1977, FNMA purchased more than $4 billion worth of loans.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA)

GNMA (known colloquially as "Ginnie Mae") is an agency of HUD created in 1968 to purchase government-insured and guaranteed mortgages from private lenders in the same way that FNMA does. Additionally, GNMA goes beyond buying and selling mortgages on the secondary mortgage market, and also issues securities which are backed by the pool of mortgages it holds. In 1977, GNMA issued more than 17 billion dollars worth of securities, and by the end of that year had over $43 billion worth of securities outstanding. The agency also has the power to purchase mortgages with below market interest rates and resell them to lenders at the prevailing rate, absorbing the difference as an interest subsidy to the lender.

Such authority is used from time to time to stimulate private mortgage lending. Developers of assisted housing projects, such as Section 8 new construction or substantial rehabilitation, may also take advantage of this financial subsidy in addition to the rent subsidy that they already enjoy.

FEDERAL HOME LOAN BANKS (FHLB's)

The Federal Home Loan Banks operate under the auspices of the Federal Home Loan Bank Board (FHLBB), and are empowered to make monetary advances to member institutions during times of tight credit to cover withdrawals or to help savings and loan associations and mutual savings banks to expand their lending activities. As of the end of 1977, $17 billion in advances were outstanding.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC)

The FHLMC (known colloquially as "Freddie Mac") is a government-chartered corporation controlled by the FHLBB. Created in 1970, FHLMC purchases mortgages from savings and loan associations and sells shares in the mortgage pool to private investors. This program has the same intended effect as the GNMA program, described above.

CHAPTER THREE

STATE HOUSING PROGRAMS ADMINISTERED BY THE MINNESOTA HOUSING FINANCE AGENCY

INTRODUCTION

The Minnesota Housing Finance Agency (MHFA) was created in 1971 to help Minnesotans of low and moderate income obtain decent, safe and sanitary housing at affordable prices. The MHFA administers a number of statewide programs which, by using a combination of housing revenue bond proceeds, appropriated dollars and revolving loan funds, seek to increase the availability and affordability of new single and multi-family housing units, and improve the condition of existing ones. The following is a list of the six programs discussed in this chapter.

- A multifamily development program which offers below market interest loans to developers of low and moderate-income multi-family housing;

- A home mortgage program which offers below market interest loans to low and moderate-income purchasers of new and existing single-family homes;

- A number of home improvement programs which offer rehabilitation loans and grants to low and moderate-income homeowners and to owners of multi-family housing for low and moderate-income tenants. Funds are also available from the agency to assist low and moderate-income families with a handicapped member to improve the physical accessibility of their homes;

- A number of Indian housing programs designed to aid low and moderate-income Native Americans living both on and off the reservation;

- A mortgage loan program to assist the construction or purchase of group homes for developmentally disabled adults;

- A subsidy program designed to assist developers of larger (three and four bedroom) rental units in order to increase the availability of rental units for families with children.

MULTIFAMILY DEVELOPMENT PROGRAM

NATURE OF STATE AID

The MHFA provides construction and permanent mortgage financing for low and moderate income rental housing.

NATURE OF THE PROGRAM

Under this program, the agency makes mortgage loans for the new construction and substantial rehabilitation of multifamily housing for occupancy by households whose incomes meet MHFA eligibility requirements. MHFA raises funds for this program through the sale of tax-exempt housing revenue bonds and notes. Because the interest the agency pays on these bonds is lower than that of taxable bonds, the agency is consequently able to issue mortgage loans at below-market interest rates, thereby enabling apartment developers to charge their tenants lower rents.

Developments financed by MHFA under this program receive commitments of rental assistance under the Section 8 program administered by HUD. (For a description of this federal program, see page 6). However, in furtherance of legislative policy to promote economic integration in residential buildings, the MHFA encourages developments where only a portion of the tenants receive Section 8 assistance. The balance of the units are leased at "market rate" rents.

APPLICANT ELIGIBILITY

--*Developers:* Any individual, non-profit entity (including HRAs), limited dividend entity or cooperative housing corporation may submit a proposal to the agency for the construction or substantial rehabilitation of a multifamily development. The MHFA will then evaluate the site, the market and the economic feasibility of the project as well as the financial condition and development experience of the sponsor. In selecting proposals, the MHFA also considers the relative need of the area, as expressed in an "Allocation Plan" developed jointly with federal housing agencies, and regional and local housing agencies priorities. Selection is contingent upon the availability of Section 8 units, which are limited in number and restricted as to use (i.e., elderly v. family, metropolitan v. non-metropolitan, new construction v. substantial rehabilitation, etc.). In most cases, the housing is privately designed, constructed and managed.

--*Tenants:* Eligibility for Section 8 assistance is determined by HUD (see Housing Guide, p. 7.) In buildings where only a portion of the units are Section 8, most of the units are available for people with adjusted incomes of up to $16,000 a year, or 66 times the gross monthly rent for the unit to be occupied, whichever is greater. A small portion of the units in these buildings may be available without regard to income.

SCOPE OF THE PROGRAM

As of January, 1980, the MHFA Multifamily Development program had sponsored the construction of 134 apartment developments containing 10,047 units. Forty-three additional developments containing 2,977 units were still under construction.

Applications for the financing of 27 more developments, containing a proposed 1,773 units were being processed by the agency as of that date. In order to finance the program, the MHFA has sold, as of September 30, 1979, $461,185,000 worth of housing revenue bonds.

LEGAL AUTHORITY

Minnesota Statutes 1978, Section 462A.05, subdivisions 2 and 3.

AFFORDABLE HOME MORTGAGE PROGRAM

NATURE OF STATE AID

Mortgage loans at below-market interest rates for the purchase of new or existing homes by households of low and moderate income.

NATURE OF THE PROGRAM

Using proceeds from the periodic sale of tax-exempt housing revenue bonds, the MHFA makes mortgage loans at interest rates below the prevailing market rate to low and moderate income Minnesota households for the purchase of owner-occupied structures of up to two housing units. The interest rate of the loan depends upon the interest rate at which the agency sells its bonds. While the majority of home mortgages under this program are funded through the sale of bonds, the Minnesota Legislature in 1976 provided the agency with a special $5,000,000 appropriation to finance additional home mortgages, resulting in the financing of 160 home purchases in 1976-77.

Moreover, the MHFA is able to give added financial assistance to first-time low and moderate income home purchasers by means of its revolving Homeownership Assistance Fund. Established in 1977 with state appropriations, the HAF program provides no-interest loans for downpayment and monthly payment assistance to lower income families in order to bring homeownership within their financial grasp. These HAF loans supplement the low interest mortgage loans described above. The MHFA may provide up to $1,000 toward the downpayment, and a portion of the monthly mortgage payments (up to $75 a month, the total not to exceed $7,200) on the borrower's behalf. Over several years the the monthly assistance is reduced and the borrower gradually assumes full responsibility for the monthly payments, and also begins to pay back the no-interest loan.

APPLICANT ELIGIBILITY

Minnesota residents who are reasonably good credit risks and who have adjusted annual incomes of not more than $19,000 in the seven-county Metropolitan area, or not more than $17,500 outstate, are eligible to receive home mortgages under this program. HAF monthly assistance is restricted to borrowers with annual adjusted incomes of $13,000 or less who have reasonable expectations of increasing incomes in the future. Borrowers who have previously owned a home in the last two years are ineligible for the HAF program.

SCOPE OF THE PROGRAM

As of December, 1979, MHFA had issued 8,871 mortgage loans with a value of $272,000,000. As of June, 1979, the agency had written 1,041 no-interest HAF loans, amounting to $3,620,855.

CURRENT STATUS

The Affordable Home Mortgage program and the HAF program are ongoing; however, the future of the home mortgage program is presently unclear. The reason for this is pending federal legislation sponsored by Representative Ullman of Oregon which would severely limit the tax exempt status of state and local housing revenue bonds used for single family mortgages. Moreover, the legislation would apply retroactively to most new housing revenue bonds issued after April, 1979. Unless and until the Ullman bill is passed and signed into law in its final form, the MHFA will not know the full extent of its effect on the home mortgage program.

LEGAL AUTHORITY

Minnesota Statutes, 1978, section 462A.05, subdivision 3; section 462A.21, subdivision 8.

HOME IMPROVEMENT PROGRAMS

NATURE OF STATE AID

Low interest loans and grants to low and moderate-income homeowners to rehabilitate their homes. This financial aid may also be used to improve the accessibility of the housing to handicapped occupants, and to make energy conservation improvements.

NATURE OF THE PROGRAM

By means of a combination of appropriated dollars and housing revenue bond proceeds, the MHFA makes very low interest loans (between 1 percent and 8 percent, depending on the borrower's income) to eligible homeowners, to enable them to make improvements in their homes. The program is administered at the local level by close to 300 participating financial institutions and public housing agencies. The loans may be used in one-to-six unit dwellings which are at least 15 years old, or which need energy improvements, or have health and safety hazards. Eligible improvements include energy saving improvements (including solar heating equipment), improvements to increase compliance with housing codes or to increase the property's market value, and other basic improvements to make the house more livable.

Additionally, the MHFA may make outright grants of up to $5,000 to very low income people to enable them to make basic repairs on their homes. Funded by state appropriations, the Home Improvement Grant Program permits basic improvements to be made on one and two family homes to conserve energy, increase code compliance, and correct defects and deficiencies.

The program is administered at the local level by housing and redevelopment authorities, community action agencies and tribal organizations. Finally, the MHFA administers the Accessibility Fund which enables low and moderate income households with a handicapped member to improve the accessibility of their homes. These households may receive a grant up to $10,000 to make such home improvements as the construction of ramps and the modification of bathrooms, bedrooms and kitchens. Furthermore, these accessibility grants may be combined with home improvement loans up to a combined total of $15,000.

APPLICANT ELIGIBILITY

--*Home Improvement Loans:* Minnesota residents who are reasonably good credit risks and who have an annual adjusted income of $16,000 or less.

--*Home Improvement Grants:* Minnesota residents who own and occupy the property to be improved, and have annual, adjusted incomes of up to $5,000. The gross value of the applicant's assets (not including personal property and the home being improved) may not exceed $25,000.

--*Accessibility Fund:* Minnesota residents having an annual adjusted income of $16,000 or less. The amount of the grant will vary depending on the applicant's income and outstanding indebtedness.

SCOPE OF THE PROGRAM

As of December, 1979, the MHFA had made 23,978 home improvement loans worth approximately $113,714,933 and 8,784 home improvement grants, (including accessibility grants), amounting to $30,303,423.

INDIAN HOUSING PROGRAMS

NATURE OF STATE AID

A revolving loan fund to finance housing for low and moderate income Indians.

NATURE OF THE PROGRAM

The Minnesota Legislature has appropriated money for a number of separate loan funds to finance the construction, purchase and rehabilitation of housing for Indians, both on and off the reservation. The majority of the funds is administered by the housing corporations of the Minnesota Chippewa Tribe, the Red Lake Band of Chippewa Indians and the Sioux Tribe, though all Indians residing in Minnesota are eligible for loans without regard to tribal affiliation. Interest rates are established by the tribes, and have ranged from 3.5 to 5 percent. A separate fund has also been established to finance housing loans for low and moderate income urban Indians residing in the Duluth area and in the seven-county metropolitan area. These funds may be used for the construction, purchase or rehabilitation of both single and multifamily housing. The MHFA is directed by statute to combine appropriated dollars with agency bond proceeds and other housing resources whenever possible to help finance the urban Indian housing program. Furthermore, the Home Improvement Grant Program (Housing Guide, p.) is administered on Indian reservations by tribal organizations.

The 1979 Minnesota legislature appropriated an additional sum of money ($250,000) for home improvement grants for the Sioux tribe. These grants are to be made under the same rules that govern the regular Home Improvement Grant Program. Enrolled members within the Sioux communities of Prairie Island, Shakopee, Lower Sioux (Morton) and Upper Sioux (Granite Falls) are eligible to participate.

APPLICANT ELIGIBILITY

All Indians residing in Minnesota who meet the income eligibility requirements may apply for housing loans under these programs, subject to applicable geographic limitations. The maximum income requirements are the same as those for the Affordable Home Mortgage Program; i.e., $17,500 annual adjusted income or less for outstate residents, and $19,000 or less for those persons residing in the seven county metropolitan area. However, eligibility requirements for urban Indian housing programs may vary from program to program.

As stated previously, only enrolled members of Sioux communities are eligible for the Sioux home improvement grant program.

SCOPE OF THE PROGRAM

As of June 30, 1979, the MHFA has made a total of approximately 211 loans, totalling approximately $6,681,127.

LEGAL AUTHORITY

Minnesota Statutes, 1979 Supplement, Section 462A.07, Subdivisions 14 and 15, and Section 462A.21, Subdivisions 4c and 4d. See also Laws 1979, Chapter 327, Section 13, Subdivision 9.

LEGAL AUTHORITY

Minnesota Statutes, 1978, section 462A.05, Subdivision 14; Minnesota Statutes, 1979 Supplement, Sections 462A.05, Subdivisions 15 and 15a; and 462A.21, Subdivisions 4f and 11.

RESIDENTIAL GROUP HOME PROGRAM FOR THE DEVELOPMENTALLY DISABLED

NATURE OF STATE AID

Low interest mortgage loans for the purchase or new construction of group homes for developmentally disabled adults.

NATURE OF THE PROGRAM

The Developmentally Disabled Program, using proceeds from the sale of tax-exempt bonds, provides permanent mortgage financing at below-market interest rates for the purchase or new construction of group homes for low and moderate-income developmentally disabled adults. An alternative to institutionalization, the group homes promote community orientation, socialization and the development of self-care skills in their residents.

A limit of 16 residents per home has been established by the MHFA to ensure a residential atmosphere while also providing adequate support services. Additionally, the agency requires that the home be accessible to public transportation and near shopping areas, medical facilities, and sources of education and employment. Finally, the homes must be licensed as care facilities by the Department of Public Welfare and approved by the Department of Health.

APPLICANT ELIGIBILITY

To be eligible to live in a group home, a person must have a severe chronic disability, attributable to a mental or physical impairment or a combination of the two, which was apparent before the age of 22 and is likely to continue indefinitely. This chronic disability must limit effective performance of three or more of the following activities: (1) self-care, (2) receptive and expressive language, (3) learning, (4) mobility, (5) self-direction, (6) capacity for living, and (7) economic sufficiency. Additionally, the person must require special extended or lifelong care, treatment or supervision.

SCOPE OF THE PROGRAM

As of December, 1979, the MHFA had financed 28 group homes, by way of mortgages totalling $4,161,000. These homes are located throughout 15 Minnesota counties, and presently house 265 developmentally disabled adults.

LEGAL AUTHORITY

Minnesota Statutes, 1978, sections 462A.02, Subdivision 9, and 462A.05, Subdivisions 2 and 3.

THREE AND FOUR BEDROOM RENTAL HOUSING SUBSIDY

NATURE OF STATE AID

Construction and rehabilitation grants to sponsors of low and moderate income rental housing.

NATURE OF THE PROGRAM

In order to encourage the new construction or rehabilitation of dwelling units for large, low and moderate income families, the 1979 Legislature appropriated $500,000 to the MHFA for a new grant program. The MHFA is authorized to provide grants of up to $5,000 per unit to sponsors and builders to lower the construction or rehabilitation costs of three bedroom apartments and four or more bedroom townhouses. The MHFA limits this assistance to a maximum of four units per development.

APPLICANT ELIGIBILITY

Sponsors or builders of MHFA-financed rental housing for low and moderate income people.

SCOPE OF THE PROGRAM

Under its current appropriation, the MHFA will provide grants for a minimum of 100 rental units.

LEGAL AUTHORITY

Minnesota Statutes, 1979 Supplement, Section 462A.05, Subdivision 2a, and Section 462A.21, Subdivision 4e.

STATUS OF MHFA BONDING AUTHORITY AS OF JANUARY 1, 1980

Apartment Development and Home Mortgage Programs

Statutorily Authorized:	$1,325,000,000
Outstanding Apartment Development Bonds:	$ 461,185,000
Outstanding Single Family Mortgage Bonds:	$ 294,355,000
Authorized but unissued:	$ 569,460,000

Single Family Rehabilitation Programs

Statutorily Authorized:	$ 225,000,000
Outstanding Rehabilitation Bonds:	$ 106,170,000
Authorized but unissued:	$ 118,830,000

CHAPTER FOUR

MINNESOTA HOUSING AND REDEVELOPMENT AUTHORITIES*

HISTORICAL BACKGROUND

The Minnesota Housing and Redevelopmental Authority Act was initially passed in 1947 to enable local units of government to utilize the housing subsidy programs of the federal government. St. Paul, Minneapolis, Duluth, and a few other cities were among the first to create municipal housing and redevelopment authorities, (hereafter, HRAs) in the late 1940s. During the post war years, the primary activity of local HRAs was the construction of housing for military veterans and low income persons. These units were developed under the "Public Housing Program" which was available exclusively to local HRAs, and under which the federal government paid 100 percent of the construction costs. (See Housing Guide, p. 8.)

In 1955 the "Urban Renewal" grant program was organized within the Federal Housing Administration to concentrate HRA activities aimed at the spread of urban blight. Taken together, the low rent public housing program and Urban Renewal grant program provided the two basic tools local HRAs needed to operate both housing and redevelopment projects. By 1960, four HRAs in Minnesota were using the federal Urban Renewal program and seven HRAs were operating Public Housing programs.

The federal Department of Housing and Urban Development was given cabinet level status in 1965 and a series of new housing and urban redevelopment programs were subsequently created for the exclusive use of HRAs. In 1971, the Minnesota Housing Redevelopment Authority Act was amended to permit the establishment of County and Multi-county HRAs in order to allow non-incorporated areas of the state to participate in federal housing and community development programs.

In 1974, the HUD Public Housing and Urban Renewal programs underwent drastic changes in Congress. The Public Housing program, once the exclusive production tool for local HRAs, was largely phased out and replaced by the new "Section 8 Housing Assistance Payments Program" (See Housing Guide p. 6.) The Section 8 program was designed primarily for the private sector and did not require the involvement of public HRAs, although they have in fact, been involved with the program's administration. Furthermore, Urban Renewal programs were terminated and replaced by the Community Development Block Grant program (Housing Guide, p. 12) which was designed for the general purpose uses of local government rather than for single purpose HRAs.

Over the years, the pattern of creating local HRAs appears to have been in response to the availability of federal

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* This section is based on a staff report issued by the Minnesota State Planning Agency.

housing and redevelopment programs. During the 1950s and 60s, the vast majority of municipal HRAs were established to utilize HUD Public Housing and Urban Renewal programs. During the early 1970s when the Public Housing program underwent the "freeze", few municipal HRAs were established. County housing authorities began to organize in the mid 1970s in order to manage the Section 8 Existing Housing Assistance program over a larger geographical area. Today, several county HRAs also administer housing rehabilitation programs financed with HUD block grants or MHFA rehabilitation funds. Many municipal HRAs continue to manage Public Housing projects and redevelopment programs using HUD block grant funds.

Additionally, there have been some recent state law developments which may cause an increase in the number of housing programs administered by local HRAs. The Minnesota legislature passed legislation in 1979, empowering, under certain circumstances, any Minnesota city to issue its own housing revenue bonds. See Minnesota Statutes, 1979 Supplement, Chapter 462C. These bonds may be used to finance single and multifamily housing, primarily for low and moderate income persons. Most importantly, municipal and county HRAs may be designated by city governments to administer their local housing programs.

It should be noted that Chapter 462C requires, among other things, that local housing revenue bonds be issued only pursuant to a city housing plan that has been approved by both the appropriate regional development commission (or the Metropolitan Council in the seven-county metro area), and the Minnesota Housing Finance Agency.

WHAT IS AN HRA?

An HRA is a public corporation empowered by state law (Minnesota Statutes, Sections 462.411-462.711) to undertake certain types of housing and redevelopment or renewal activities. While the state enabling legislation "creates" a housing and redevelopment authority in each city and county, it is up to the governing body of each city or county to undertake certain legal procedures to formally establish a housing and redevelopment authority before the HRA can transact business and use any of its assigned powers. Once an HRA is legally established, it may undertake certain types of planning and community development activities on its own, following approval by the local governing body(s). The legal procedures to establish an HRA differ slightly according to the type of HRA being organized.

TYPES OF HRAs

A municipal HRA is established by the city council and may undertake programs within the corporate limits of the city (Minnesota Statutes, Section 462.425.) There are 207 municipal HRAs established in Minnesota.

A county HRA is established by the county board and may undertake programs within the county, and within municipalities in the county upon their approval (Minnesota Statutes, Section 462.426). There are 36 county HRAs established in Minnesota.

A multi-county HRA may be established by the county boards of two or more counties to undertake programs within the counties and within the municipalities in the counties upon their approva (Minnesota Statutes, Section 462.426).

There are two multi-county HRAs in Minnesota.

--"Metropolitan HRA" operating in the seven-county Twin Cities area. (Minnesota Statute, sections 473.193-473.201).

--"Northwestern Minnesota Multi-County HRA" consisting of five counties: Kittson, Marshall, Pennington, Polk and Red Lake.

In order to create a housing and redevelopment authority, the local governing body(s) must, by resolution, find that there exists within the municipality or county:

--Substandard or deteriorated areas which cannot be redeveloped without governmental assistance; and/or

--A shortage of safe, sanitary and decent dwelling accommodations available to persons of low income at rentals or prices they can afford.

--Adequate housing accommodations are not available for veterans or servicemen.

This resolution must be passed by the local governing body(s) after a public hearing has been held. A copy of this resolution must be filed with the State Planning Agency.

AREA OF OPERATION

A municipal HRA may operate within the corporate limits of the municipality.

The area of operation of a county HRA or a multi-county HRA includes all of the political subdivisions within the county or counties; provided, however, that the county or multi-county authority may not undertake any project within the boundaries of a municipality which has not adopted a resolution authorizing the county or multi-county HRA to exercise its powers within that municipality.

Once established, a county or multi-county HRA shall preclude the formation of municipal HRAs without the explicit concurrence of the county or multi-county HRA and the State Planning Agency.

MEMBERSHIP AND POWERS

The municipal HRA and county HRAs consist of five commissioners who are residents of the municipality or county and who serve for five-year, staggered terms. The Act permits city councilmen or other members of the municipality's governing body to be HRA commissioners. A multi-county HRA consists of one commissioner appointed by each member municipality and/or county for terms of five years. The certificate of appointment for each commissioner to a municipal, county, or multi-county HRA must be filed with the State Planning Agency.

An HRA is primarily responsible for the planning and implementation of redevelopment and/or low rent housing assistance programs within its area of operation. The law provides that an HRA shall have all the powers necessary or convenient to carry out the purpose of the State HRA Act (but not the power to levy and collect taxes or special assessments except as authorized by the city council or county board) including but not limited to the following powers:

- To sue and be sued.
- To employ staff and an executive director.
- To undertake projects within its area of operation and to provide for the construction, reconstruction, improvement, extension, alteration, or repair of any project or part of a project.
- To sell, buy, own, and lease property by any means necessary, including the power of eminent domain.
- To cooperate with and utilize state and federal financial assistance programs.
- To develop methods of rehabilitation and code enforcement techniques.
- To issue bonds for any of its corporate purposes backed by the pledge of revenues, grants, or other contributions.
- To implement renewal or redevelopment programs utilizing the "Tax Increment Financing" method.
- To own, hold, improve, lease, sell, or dispose of real or personal property.
- To designate substandard, slum, or deteriorating areas needing redevelopment, and unsafe, unsanitary, and over-crowded housing.

While an HRA has the legal authority to "do whatever is necessary and convenient" in order to implement its projects, any redevelopment plan, federal assistance grant application, or other housing and redevelopment related activity must be approved by the local governing gody before the housing and redevelopment authority may begin implementation.

FINANCING

Operating funds, capital improvements, and the debt retirement expenses for HRA projects may be financed by any one or any combination of the following methods, subject to the approval of the city council or county board:

- Federal and state loans and grants.
- Revenue bonds sold by the HRA or local governing body.
- General obligation bonds sold by the local governing body.
- General municipal or county operating funds transferred to HRA accounts.
- Tax increments from redevelopment projects.
- One-third mill levy for redevelopment projects and planning activities.
- One-thirtieth mill levy for informational and relocation services.

HRA ACTIVITIES TO DATE

- 105 municipal and county HRAs own and manage 22,376 Public Housing units.

- 28 municipal and county HRAs manage about 5,000 Existing Section 8 housing units.

- 3 municipal HRAs own and manage about 100 Section 8 New Construction Housing units.

- 3 municipal and county HRAs own and manage 68 FmHA Section 515 Rural Rental Housing units.

- 62 municipal HRAs administer locally financed redevelopment projects using tax increment financing techniques.

- 5 municipal HRAs participate in the MHFA demonstration rehabilitation program for rental units.

- 19 municipal and county HRAs participate in the MHFA rehabilitation grant program.

- 5 municipal and county HRAs participate in the MHFA rehabilitation loan program.

- 1 municipal HRA manages 113 units of Section 8 housing financed with an MHFA mortgage.