2013 Annual Awards Entry Form
(Complete one for each entry.)

Entry Name Reaching More Minnesota homeowners: Fix Up Program Improvements

Fill out the entry name ***exactly*** as you want it listed in the awards program.

HFA Minnesota Housing

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013.**

Use this header on the upper right corner of each page.

HFA Minnesota Housing

Entry Name Reaching More Minnesota homeowners: Fix Up Program Improvements

Communications	Homeownership	Legislative Advocacy	Management Innovation
☐ Annual Report ☐ Promotional Materials and Newsletters ☐ Creative Media	☐ Empowering New Buyers ☒ Home Improvement and Rehabilitation ☐ Encouraging New Production	☐ Federal Advocacy ☐ State Advocacy	☐ Financial ☐ Human Resources ☐ Operations ☐ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	**Are you providing visual aids?**
☐ Multifamily Management ☐ Preservation and Rehabilitation ☐ Encouraging New Production	☐ Combating Homelessness ☐ Housing for Persons with Special Needs	☐ Special Achievement	☒ YES ☐ NO

Reaching more Minnesota Homeowners: Fix Up Loan Program Improvements

Achieve Strategic Objectives
Minnesota Housing has identified maintaining and improving existing affordable homes as one of its strategies, and the Agency's Fix Up program provides affordable home improvement loans to homeowners throughout the state. Although Minnesota Housing has offered the Fix Up program for more than 35 years, the Agency undertook major retooling of the program this year to reflect the new realities of owning a home following the foreclosure crisis.

Funding
The Fix Up program has been a consistent resource in assisting modest income homeowners with affordable financing for critical improvements to their homes since 1976. The program provides amortizing, fixed rate home improvement loans at below market interest rates. In its early years, State appropriations were used to write down interest rates in conjunction with loans funded using tax-exempt bonds Loan repayments were used to repay the bonds. State appropriations ended in 1985 when the program became self-supporting (i.e., no need for state appropriations to write down interest rate) and repayments were sufficient to establish an endowment fund, which acts as a revolving pool used for new loan activity. With changes in the tax code, taxable bonds were subsequently used to raise new capital instead of mortgage revenue bonds. The endowment fund was then used to pay for interest rate write downs given the additional cost of taxable bonds. Minnesota Housing's last bond sale for the Fix Up program was in 2005 and all bonds have been recently paid off. Today, due to market conditions, the program is truly self-sustaining because more repayments are coming in than there are new loans being made.

In 2012, a thorough review was conducted to ensure our Fix Up loan product was competitive and continued to address Minnesota's housing needs. Data and input were gathered from a variety of internal and external sources including other state housing finance agencies and program lending partners. As a result, several program changes were made to make the Fix Up loan more mission-driven, user-friendly and competitive. Another assessment and minor program tweaks were made in early 2013 to further refine the program.

The program changes included (a detailed program chart can be found at the end of this document):

- **Introduction of the unsecured loan.** Since a lien is not required, unsecured loans are a great financing option for homeowners with limited equity and higher loan-to-value ratios. Given the recent and continued trends in the housing market, the number of underwater homeowners has increased and still remains high. An unsecured loan is a way to assist these homeowners who would otherwise be excluded from the home equity/home improvement market.

- **Offering an incentive interest rate to homeowners enrolling in automatic payment for unsecured loans.** The interest rate is 50 basis points lower for homeowners enrolling in automatic monthly payment with their unsecured loans.

- **Offering an incentive interest rate for loans addressing energy conservation and accessibility improvements.** The interest rate is 100 basis points lower for loans addressing energy conservation and accessibility improvements.

- **Eliminating the income limit for loans addressing energy conservation and accessibility improvements.** For all other loans, the Fix Up income limit is set to 115% of Twin Cities area median income and this limit is applied state-wide ensuring service to moderate income households. The average household income for Fix Up borrowers is currently $60,900.

- **Increasing loan maximums.**
  - Secured loan option to $50,000.The loan maximum was raised to $50,000 from $35,000. Between 2003 and 2012, the average loan amount in the overall home improvement market in Minnesota, as indicated by HMDA, increased by about 60 percent. When considering inflation, a borrower would need to spend $48,000 in 2012 to have the same purchasing power for residential rehabilitation as $35,000 in 2003. The Fix Up loan maximum had not kept up with the increasing cost of home improvement. Increasing the loan maximum better aligned Fix Up with market realities.
  - Unsecured loan option to $15,000.The loan maximum was raised to $15,000 from $10,000 for the same reason cited above.
  - Incentive interest rate loan option for energy conservation or accessibility improvements to $15,000. The loan maximum was raised to $15,000 from $7,500. Based on information provided by a national energy efficiency program, the average loan amount for energy efficiency projects is $9,000. It was clear the loan maximum was a barrier to borrowers taking advantage of our incentive interest rate.

- **Increasing lender compensation.** The lender fee was increased to $400 for secured loans and set at $250 for unsecured loans. Lenders are compensated by Minnesota Housing with a lender fee paid on a per loan basis in addition to the 1% origination fee they typically charge to the borrower. The program assessment found that many lenders were only originating larger loans as a way to cover their costs since the lender fee was minimal and they needed to make up revenue from the 1% origination fee. Ensuring lenders are adequately compensated increased their willingness to make more loans and their willingness to serve customers who need smaller loans. Smaller loans are predominately used by lower income households. Thus, increasing lender appetite for smaller loans increased service to lower income households.

In addition to the standard Fix Up program, Minnesota Housing offers a companion program, which allows local communities to customize the Fix Up product to suit their local needs. This program is called the Community Fix Up loan program. Local communities can partner with Fix Up lenders to write-down the interest rate – all the way to zero if necessary – and/or provide a value-added service.

Partnering for success

Minnesota Housing does not lend directly to consumers, but acts a secondary market. An extensive network of more than 100 contracted lending partners originates loans meeting Fix Up guidelines. Lenders use their own underwriting standards – at a minimum they must follow the Fix Up credit requirements. Those loans are then sold to Minnesota Housing. The partnerships have resulted in over 39,000 loans at almost $500 million dollars since 1995. As previously mentioned, local lenders can partner with local communities or non-profits to customize Fix Up and create their own Community Fix Up loan program. Minnesota Housing also has an extensive track record of partnering with other State agencies to leverage resources and programs, including offering up to $10,000 for an Energy Saver Rebate using federal stimulus funding through the Minnesota Department of Commerce.

Innovative
Minnesota Housing's program assessment found that there were only a handful of other States offering home equity loans similar to Fix Up.

Demonstrating Measurable Benefits
Fix Up's main benefit comes in its below market interest rate, especially when considering credit score, loan-to-value ratios and repayment term. For example, using the Fix Up secured loan interest rate of 5.99% over a 20-year term and a $50,000 loan amount results in a monthly payment of $357 and total interest over the life of the loan of $6,025. A market interest rate of 8.00% over a 20-year term results in a monthly payment of $418 and total interest over the life of the loan of $8,093. A Fix Up borrower in this case can save $61 a month and $2,068 in interest over the life of the loan.

Similarly, using the Fix Up unsecured loan interest rate of 6.49% over a 10-year term and a $15,000 loan amount results in a monthly payment of $170 and total interest over the life of the loan of $1,828. A market interest rate of 10.00% over a 10-year term results in a monthly payment of $198 and total interest over the life of the loan of $8,093. Here a borrower would save $28 a month and $1,024 in interest over the life of the loan.

Proven track record of Market Success
Currently, there are about $95 million of Fix Up loans in the Minnesota Housing portfolio and those loans have delinquency rates comparable to traditional home equity loans (2.40% of loans were 60+ days delinquent as of March 31, 2013).

Fix Up has maintained – and even increased – its market share in Minnesota. When comparing annual Fix Up loan production to the total home improvement loan production reported under Home Mortgage Disclosure Act (HMDA), Fix Up's market share has averaged about 12% of the overall market and 17% of the income-eligible market between 2005 and 2011. Data suggest Fix Up has helped fill the home improvement lending gap in Minnesota since the beginning of the Great Recession. In 2007, Fix Up's market share of income-eligible borrowers was about 10%. In 2011, it was 18%.

Effective Use of Resources
Fix Up is an excellent use of resources. In addition to addressing state housing needs, the Fix Up portfolio generates a yield to Minnesota Housing so that the program is self-sustaining and even contributes additional support to other agency programs, which rely on subsidy.

Visual Aid: Minnesota Housing Fix Up Loan Program details

Programmatic Area	Secured			Unsecured
	Fix Up (Regular)	Fix Up (Incentive Rate for Energy/Accessibility)	Community Fix Up	Fix Up (Regular)
Geographically Targeted	No	No	Yes, Initiative Dependent	No
Income Target	At or below $96,500	No Income Limit	At or below $96,500	At or below $96,500
Interest Rate	5.99%	4.99%	5.75%	6.99%
First Lien Adjustment	Yes, to Fed Reserve	Yes, to Fed Reserve	Yes, to Fed Reserve	No
ACH Incentive	No	No	No	Yes, interest rate reduction (6.49%)
Minimum Loan Amount	$2,000	$2,000	$2,000	$2,000
Maximum Loan Amount	$50,000	$15,000	$50,000	$15,000
Minimum Loan Term	1 year	1 year	1 year	3 years
Maximum Loan Term	Up to $10,000: 10 yrs $10,001-$50,000: 20 yrs	Up to $10,000: 10 yrs $10,001-$15,000: 20 yrs	Up to $10,000: 10 yrs $10,001-$50,000: 20 yrs	10 years
Minimum Credit Score	620	620	620	680
Loan to Value	Up to 110%	Up to 110%	Up to 110%	N/A
Debt to Income	48%	48%	48%	48%
Lender Fee	$400	$400	$400	$250
Origination Fee	1%	1%	1%	None

Note: Highlighted areas denote program changes.