

  
**ECONOMIC DEVELOPMENT AUTHORITY**

Date: May 16, 2022  
Item No.: 5c

Department Approval

Executive Director Approval

*Janice Gundlach*

*Randy Trueman*

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Item Description: Consider Amendments to Roseville Revolving Loan Program

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2 At the March 22, 2021 Roseville Economic Development Authority (REDA) meeting the board was  
3 provided information on the existing Residential Revolving Loan Program and several proposed loan  
4 programs the REDA could offer. On July 19, 2021 the REDA adopted a Senior Deferred loan, a  
5 Manufactured Home Improvement loan, a Last Resort-Emergency Deferred loan and a Down Payment  
6 Assistance Program exclusively for first generation homeownership. At that time, no changes were made  
7 to the Roseville Revolving Loan Program.

8  
9 The following is a summary of all the current programs, also summarized in Attachment A:

10  
11 *Residential Revolving Loan Program*

12 This program provides loans from \$2,000 up to \$40,000 for home improvements at an interest rate  
13 of 4% over 10 year amortization. The program does not require any income qualifications but does  
14 require that the home value not exceed current median value in Roseville. The 2022 median value  
15 is \$296,900. The program also allows for an adjustment up to 110% of median value, which  
16 currently equates to \$326,590. The median value is annually adjusted based upon Ramsey County  
17 Tax Assessor Records. This program has not been utilized since 2017 as the interest rate is not  
18 competitive. Beyond the interest rate, it is possible the barrier of having to complete an energy audit  
19 prior to the loan origination has also contributed to underutilization, especially in the last few years.  
20 The program has remained in place with no substantial changes since 2015.

21  
22 *Last Resort – Emergency Deferred Program*

23 This program funds an emergency, which is defined as a condition that makes the house  
24 uninhabitable, extremely dangerous to the occupants, or is capable of causing severe health  
25 problems. The loan would be deferred, but not forgiven, at an interest rate of 0%. The maximum  
26 loan amount would be \$10,000. There is no debt-to-income ratio requirement and the loan would  
27 be due upon sale of the home, or refinancing when taking cash out. No loans have been originated  
28 since adoption of this program.

29  
30 *Manufactured Home Improvement Program*

31 This program is designed to fund interior or exterior improvements to manufactured homes. The  
32 loan would be amortized over a maximum term of 10 years at a 4% interest rate. The maximum  
33 loan amount would be \$10,000. The loan would have debt-to-income and loan-to-value  
34 requirements. No Loans have been originated since adoption of this program. Staff would note,  
35 every manufactured home unit received a letter (in English & Spanish) advertising this loan

36 program.

37  
38 *Senior Deferred Loan Program*

39 This program is designed to fund interior and exterior improvements. It is targeted to seniors, the  
40 loan is deferred, at an interest rate of 0%. The maximum loan amount is \$25,000. There is no debt-  
41 to-income ratio requirement, but a loan-to-value of 110% does apply. The loan is due upon sale of  
42 the home. CEE conducts an inspection to prioritize improvements that should be done to the home.  
43 Six loans have been originated to-date.

44  
45 *Down Payment Assistance Program*

46 The program is designed to help underserved communities who seek to be first generation home  
47 owners with a \$25,000 deferred loan. One of two qualifiers is that the parents have never owned a  
48 home or the parent lost a home to foreclosure. In order to meet this criteria, the applicant signs an  
49 affidavit representing their parent's status and if it is found to be a false statement, the charges could  
50 result in a felony conviction, imprisonment for up to two years, and a monetary fine of up to  
51 \$20,000. One loan has been originated to-date.

52  
53 Staff would request that the EDA consider amendments to the Roseville Revolving Loan Program in order  
54 to encourage reinvestment into properties in a manner similar to what we've recently seen through the  
55 Senior Deferred Loan Program (Attachment B). Staff suggestions for amendments are discussed below:

56  
57 *Proposed Amendments – shift the origination fee to the REDA, lower the interest rate, increase the*  
58 *minimum loan amount, defer the energy audit, and require a home inspection*

59 The last amendment to this program was increasing the interest rate from 3% to 4% in 2017 to recoup  
60 administration costs of the Center for Energy and Environment (herein after referred to as CEE), who  
61 administers loans on behalf of the REDA. Loan administration fees include an origination fee of \$750,  
62 setting up/onboarding fee of \$20, a satisfaction fee of \$30, and the monthly service fee of \$6 all on a per  
63 loan basis. CEE's contract is due for renewal soon and all per-loan fees will go unchanged except the  
64 monthly service fee will increase from \$6 to \$10 per loan per month. CEE's contract renewal will be  
65 brought to the REDA for consideration at the July 18, 2022 meeting (although it's worth noting now there  
66 isn't another viable option for loan administration). An amortization schedule with the increased fee is  
67 provided as Attachment C. This illustrates that lower term and lower value loans are not able to recoup all  
68 costs, but higher value and higher term loans still turn a profit. Recognizing this, and not wanting to raise  
69 the interest rate further only to cover a few loans that aren't able to break even, staff suggests shifting the  
70 \$750 origination fee of the loan and onto professional services of the REDA. Staff believes the REDA's  
71 current budget for professional services would be able to accommodate this shift for the remainder of 2022.  
72 Beyond 2022, the REDA's budget for professional services may only need to be adjusted upwards by  
73 \$2,000 or less, depending on how many loans are originated. Making this shift would also allow the  
74 REDA to lower the interest rate back down to 3% making the program competitive again and thus  
75 incentivizing improvement. To off-set the lower interest rate, and recognizing that lower value loans are  
76 harder to break even on, staff would suggest adjusting the minimum loan amount to \$10,000 (Attachment  
77 D). Given only three active loans were for less than \$10,000, and in consideration of material and labor  
78 costs, staff doesn't feel increasing the loan amount will be a barrier to those that wish to utilize this  
79 program. Further, lower value loan needs may be serviceable under the Last Resort program, depending on  
80 the improvement proposed.

81  
82 The last modification the REDA may consider making would be to remove the requirement that a home  
83 energy audit be completed *prior* to loan origination, but instead require the audit be *booked* upon loan

84 origination. Scheduling an energy audit for weekends or evenings is out two months. However, instead of  
85 requiring the energy audit in advance of loan origination, staff would suggest a home inspection instead,  
86 similar to the one that is required for the Senior Deferred Loan program. Such an inspection, in advance of  
87 the loan origination, may benefit home owners as they consider their desired improvements. This allows  
88 for prioritization of other work that is necessary to stabilize the home before cosmetic improvements are  
89 done. These inspections cost \$250 and are funded by the EDA. The budget for these inspections has been  
90 sufficient and staff doesn't anticipate needing additional funding if the EDA opts to require these  
91 inspections prior to origination of a loan under the Revolving Loan Program.

92  
93 Staff is seeking direction from the REDA on whether to pursue any of the suggested changes to the  
94 Roseville Revolving Loan Program, as discussed herein, which include:

- 95 • Shift the \$750 loan origination fee from the loan to the REDA,
- 96 • Lower the interest rate from 4% to 3%,
- 97 • Increase the minimum loan amount from \$2,000 to \$10,000,
- 98 • Defer the required energy audit, and
- 99 • Require a home inspection prior to loan origination.

100  
101 Jim Hasnik, Director of Lending Services from CEE will be present to answer any questions the REDA may  
102 have.

103 **BUDGET IMPLICATIONS**

104 The REDA is using existing fund balance from the Revolving Loan Program for all of the loan programs  
105 offered. If, at any time, CEE determines funds to administer any of the programs are running low, they  
106 would advise staff so the REDA could identify additional funds to administer the programs or whether to  
107 cease offering the programs if additional funds couldn't be identified.

108  
109 Beyond program modifications, the REDA pays \$2,500 a year to CEE for loan services (no matter how  
110 many loans CEE is servicing). That fee is proposed to increase upon contract renewal in 2023 to \$5,000 a  
111 year. Staff does suggest factoring this increase into the 2023 REDA budget.

112 **STAFF RECOMMENDATION**

113 Discuss the proposed modifications to the Roseville Revolving Loan Program. If modifications are desired,  
114 adopt a resolution authorizing staff to make amendments to the Roseville Revolving Loan Program based  
115 on REDA discussion and direction (Attachment E).

116 **REQUESTED EDA ACTION**

117 Discuss the proposed modifications to the Roseville Revolving Loan Program. If modifications are desired,  
118 adopt a resolution authorizing staff to make amendments to the Roseville Revolving Loan Program based  
119 on REDA discussion and direction (Attachment E).

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121 Prepared by: Jeanne Kelsey, Housing & Economic Program Manager, 651-791-7086  
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123 Attachments A: All current guidelines to all Roseville Loan Programs  
124 B: Report on all loans originated since July 2021  
125 C: Amortization Schedule with all of the fees in the loan program proceeds  
126 D: Amortization Schedule without the Origination Fee  
127 E: Resolution authorizing amending Roseville Revolving Loan Program based upon REDA direction