



# **Minnesota Housing Mortgage Loans Step Up Program Procedural Manual**

***May 6, 2024***



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## **Introduction**

### **Mission Statement**

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

### **Background**

The Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers two mortgage loan programs to serve low- and moderate-income homebuyers:

- The Step Up Program for home purchase or refinance, with access to a downpayment and closing cost loan.
- The Start Up Program for First-Time Homebuyers, a first mortgage loan program with access to downpayment and closing cost loans. Refer to the Start Up Program Procedural Manual for Start Up Program requirements.

Lenders originate and close loans under their individual underwriting and closing procedures. A Master Servicer securitizes and purchases closed loans originated by the Lender under prescribed program requirements. The Lenders are advised that underlying eligible product guidelines and Master Servicer requirements apply, which may be more restrictive than the Minnesota Housing guidelines. Minnesota Housing’s current Master Servicer is U.S. Bank Home Mortgage—Housing Finance Agency Division (U.S. Bank – HFA Division).

Minnesota Housing offers the Monthly Payment Loan for Step Up Program Borrowers who need funds for downpayment and closing costs.

### **Procedural Manual**

This Procedural Manual sets forth the terms and conditions under which U.S. Bank – HFA Division will purchase mortgages under Minnesota Housing’s Step Up Program and Monthly Payment Loan option. Step Up Program is not subject to tax-exempt bond regulations so it is not restricted to first-time homebuyers.

### **Step Up Program**

Step Up Program offers low-interest home mortgage and refinance loans throughout Minnesota to low- and moderate-income Borrowers through local participating Lenders.

## **Monthly Payment Loan Program**

The Monthly Payment Loan provides an amortizing loan with an interest rate equal to the first mortgage to assist Borrowers with downpayment and closing costs. See Chapter 7 for Monthly Payment Loan guidelines. The Monthly Payment Loan is the only Minnesota Housing downpayment and closing cost loan option available with Step Up Program.

## **The Master Servicer**

The Master Servicer purchases Step Up Program Loans and issues mortgage-backed securities for Minnesota Housing. In order to be eligible for purchase, loans must meet the guidelines set forth in this Procedural Manual and all requirements published by U.S. Bank– HFA Division in [AllRegs](#).

## Chapter 1 - Responsible Lending

### 1.01 Procedural Manual

This Procedural Manual, which may be changed and modified, is referenced and incorporated to the Participation Agreement.

Minnesota Housing reserves the right to:

- Change the program interest rate(s) at any time and at its sole discretion
- Change the commitment policy at any time
- Alter or waive any of the requirements
- Impose other or additional requirements
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated
- Grant waivers, alterations, or make revisions at its sole discretion

### 1.02 Single Family Responsible Lending Policy

Minnesota Housing uses prudent, sound and responsible business practices in marketing and product design related to its Single Family loan programs. Minnesota Housing designs programs with a focus and goal of successful homeownership, which means Borrowers, must have the knowledge, ability, willingness, and capacity to repay their housing debt. Minnesota Housing does not offer subprime mortgage lending programs. Minnesota Housing reviews portfolio and market conditions regularly to ensure that business practices are updated as needed to meet its responsible lending goals.

In delivering Single Family loan programs, Minnesota Housing policies address:

- Lender relationships and a Lender's role and responsibility in originating and delivering quality, compliant loans under the Minnesota Housing program. These responsibilities include:
  - Lenders must evaluate a Borrower's repayment capacity, including evaluating risk layering and documenting sources of Borrower income(s), Borrower assets and Borrower liabilities
  - Lenders are prohibited from steering
  - Lenders must comply with all high cost and higher priced home loan rules and regulations
  - Loans may not contain prepayment penalties
  - Mandatory arbitration clauses are not permitted
  - Single Premium Credit Life Insurance may not be required nor can any funds provided by Minnesota Housing be used toward the purchase of any credit insurance products or premiums
- Compliance with the Interagency Guidelines on Nontraditional Mortgage Product Risks
- Compliance with all local, state and federal regulations as well as Minnesota Housing program guidelines as applicable to each individual loan transaction

### **1.03 Evidence of Misconduct Referred to Attorney General**

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General’s office for appropriate legal action.
- If, after a loan is made, a Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Lender will promptly report the discovery to Minnesota Housing and U.S. Bank – HFA Division.
- Minnesota Housing, or U.S. Bank – HFA Division, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender or the Borrower. This includes possible repayment of loan funds, repayment of administrative costs, repayment of fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs, or any other expenses incurred in connection with the loan or its recovery.

### **1.04 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number**

The Minnesota Revenue Recapture Act (Minnesota Statutes, Sections 270A.01 to 270A.12, as amended) allows the disclosure of the Borrower’s Social Security Number to the Minnesota Department of Revenue.

This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

This collection remedy is in addition to and not in substitution for any other remedy available by law.

### **1.05 Unauthorized Compensation**

The Lender may receive fees approved in this Procedural Manual. However, the Lender may not receive or demand from the realtor, builder, property seller, or Borrower:

- Kickbacks
- Commissions
- Other compensation



## **1.06 Minnesota Housing Due Diligence Audit Guidelines and Requirements**

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by U.S. Bank – HFA Division. A loan file may be requested to be forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by U.S. Bank – HFA Division.

Audited loans are reviewed for:

- Minnesota Housing program and policy compliance
- Fraud or misrepresentation on the part of any party involved in the transaction
- Trends or other indicators that may have an impact on the success of the Borrower(s) and programs

## **1.07 Termination of Lender Participation**

Minnesota Housing may terminate the participation of any Lender under the programs at any time and may preclude the Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual
- The Participation Agreement
- The U.S. Bank – HFA Division's Lender Guide
- Applicable state and federal laws, rules, and regulations

Upon termination of a Lender's Participation Agreement:

- U.S. Bank – HFA Division will continue to purchase eligible loans delivered to U.S. Bank – HFA Division for loans originated prior to termination.
- Minnesota Housing will not refund participation fees to the Lender.
- Minnesota Housing may, at its option, impose remedies other than termination of the Participation Agreement for the Lender's nonperformance.
- The Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender is at Minnesota Housing's and U.S. Bank – HFA Division's sole discretion.

## **1.08 Representations and Warrants**

The Lender agrees to follow all applicable federal, state, and local laws, ordinances, regulations, and orders, including but not limited to the following as then in effect (and any applicable rules, regulations, and orders):

- Ability-to-Repay /Qualified Mortgage (QM) Rule
- Americans with Disabilities Act
- Anti Predatory Lending Act

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- Anti-Money Laundering and Office of Foreign Assets Control Policy
- Bank Secrecy Act
- Consumer Financial Protection Bureau’s Unfair, Deceptive, or Abusive Acts or Practices Rules
- State Data Privacy - Minnesota Statutes Chapter 13 and Section 462A.065
- Dodd-Frank Wall Street Reform and Consumer Protection Act
- Equal Credit Opportunity Act
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62
- Fair and Accurate Credit Transactions Act
- Fair Credit Reporting Act
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968)
- Home Mortgage Disclosure Act
- Home Ownership and Equity Protection Act (HOEPA)
- Department of Housing and Urban Development’s Discriminatory Effects Regulation/Disparate Impact Regulation
- Internal Revenue Code of 1986, Section 6050H
- Loan Officer Compensation
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A
- Mortgage Disclosure Improvement Act (MDIA)
- National Flood Insurance Act
- Real Estate Settlement Procedures Act of 1974
- Section 527 of the National Housing Act
- Title VI of the Civil Rights Act of 1964
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974
- Truth In Lending Act
- Uniform Electronic Transactions Act (UETA), Minn. Stat. ch. 325L
- USA Patriot Act

In addition to the above-listed representations and warrants, the Lender will have examined:

- The person who confirms on Minnesota Housing’s loan commitment system and who verifies the Lender’s Representations and Warranties on behalf of the Lender, has both the authority to legally bind the Lender and is fully conversant with:
  - U.S. Bank – HFA Division requirements as published in [AllRegs](#)
  - Minnesota Housing program requirements
  - Underlying loan product and insurer/guarantor requirements
  - The Participation Agreement
  - This Procedural Manual
  - The U.S. Bank – HFA Division Lender Guide unless those terms, conditions, and requirements are specifically waived by Minnesota Housing or U.S. Bank – HFA Division, as applicable, in writing.

### **1.09 Lender Compensation**

The Lender is compensated for each loan purchased by U.S. Bank – HFA Division as follows:

- The origination fee or discount point collected from the Borrower in accordance with industry-standard regulations, and/or
- The [service release premium](#) paid by U.S. Bank – HFA Division in an amount established by Minnesota Housing and posted on the Minnesota Housing website.

### **1.10 Annual Renewal Requirements and Fees**

- All Lenders must meet the minimum loan volume requirements as specified by Minnesota Housing or by U.S. Bank – HFA Division, whichever is greater.
- The Lender must be approved by both Minnesota Housing and U.S. Bank – HFA Division to originate Minnesota Housing Step Up Program loans.

### **1.11 Marketing Materials Terms of Use**

Lenders must follow Minnesota Housing’s [Terms of Use](#) for marketing materials and the Participation Agreement requirements for marketing and use of Minnesota Housing’s name or logo.

## **Chapter 2 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting**

### **2.01 Fraud**

Fraud is any intentionally deceptive action, statement or omission made for personal gain or to damage another.

Any person or entity (including its employees and affiliates) that enters into a contract with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the communication channels described in section 2.05.

### **2.02 Misuse of Funds**

A loan or grant agreement is a legal contract. The Borrower or grantee promises to use the funds to engage in certain activities or procure certain goods or services while Minnesota Housing agrees to provide funds to the Borrower or grantee to pay for those activities, goods, or services. Regardless of the Minnesota Housing program or funding source, the Borrower or grantee must use Minnesota Housing funds as agreed and the Borrower or grantee must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

A misuse of funds shall be deemed to have occurred when: (1) Minnesota Housing funds are not used as agreed by a Borrower or grantee; or (2) A recipient of funds cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the loan or grant agreement.

Any Borrower or grantee (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in section 2.05.

Borrowers and grantees referred to in this section are the Minnesota Housing contracting party. If applicable, third party recipients of funds, such as homebuyers, are bound by terms as detailed in the loan documents.

### **2.03 Conflict of Interest**

A conflict of interest – Actual, Potential or Appearance of a Conflict of Interest – occurs when a person has an actual or apparent duty or loyalty to more than one organization and the competing duties or loyalties may result in actions which are adverse to one or both parties. A Potential Conflict of Interest or Appearance of a Conflict of Interest exists even if no unethical, improper or illegal act results from it.

- **Actual Conflict of Interest:** An Actual Conflict of Interest occurs when a person’s decision or action would compromise a duty to a party without taking immediate appropriate action to eliminate the conflict.
- **Potential Conflict of Interest:** A Potential Conflict of Interest may exist if a person has a relationship, affiliation or other interest that could create an inappropriate influence if the person is called on to make a decision or recommendation that would affect one or more of those relationships, affiliations or interests.
- **Appearance of a Conflict of Interest:** The Appearance of a Conflict of Interest means any situation that would cause a reasonable person, with knowledge of the relevant facts, to question whether another person’s personal interest, affiliation or relationship inappropriately influenced that person’s action, even though there may be no Actual Conflict of Interest.

A conflict of interest includes any situation in which one’s judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a Partner, Family Member, Relative, Friend, Business or other Outside Interest with which they are involved. Such terms are defined below.

- **Business:** Any company, corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual or any other legal entity which engages either in nonprofit or profit-making activities.
- **Family Member:** A person’s current and former spouse; children, parents, and siblings; current and former children-in-law, parents-in-law, and siblings-in-law; current and former stepchildren and stepparents; grandchildren and grandparents; and members of the person’s household.
- **Friend:** A person with whom the individual has an ongoing personal social relationship. “Friend” does not generally include a person with whom the relationship is primarily professional or primarily based on the person being a current or former colleague. “Friend” does not include mere acquaintances (i.e., interactions are coincidental or relatively superficial). Social media friendships, connections, or links, by themselves, do not constitute friendship.
- **Outside Interest:** An Outside Interest may occur when an individual, their Family Member or their Partner has a connection to an organization via employment (current or prospective), has a financial interest or is an active participant.
- **Partner:** A person’s romantic and domestic partners and outside Business partners.
- **Relative:** Uncle or aunt; first or second cousin; godparent; godchild; other person related by blood, marriage or legal action with whom the individual has a close personal relationship.

Once made aware of a conflict of interest, Minnesota Housing will make a determination before disbursing any further funds or processing an award. Determinations could include:

- Revising the contracting party’s responsibilities to mitigate the conflict
- Allowing the contracting party to create firewalls that mitigate the conflict
- Asking the contracting party to submit an organizational conflict of interest mitigation plan
- Terminating the contracting party’s participation

Any person or entity (including its employees and affiliates) that enters into a contract with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all conflicts of interest through one of the communication channels described in section 2.05.

## 2.04 Suspension

By entering into any contract with Minnesota Housing, a contracting party represents that the contracting party (including its employees or affiliates that will have direct control over the subject of the contract) has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing’s website for a list of suspended individuals and organizations (Go to [mnhousing.gov](http://mnhousing.gov), scroll to the bottom of the screen and select Report Wrongdoing, then select Suspensions from the menu).

## 2.05 Disclosure and Reporting

Minnesota Housing promotes a “speak-up, see something, say something” culture whereby internal staff must immediately report instances of fraud, misuse of funds, conflicts of interest or other concerns without fear of retaliation through one of the communication channels listed below. External business partners (e.g., administrators, grantees or borrowers) and the general public are strongly encouraged to report instances of fraud, misuse of funds, conflicts of interest or other concerns without fear of retaliation using these same communication channels.

- Minnesota Housing’s Chief Risk Officer at 651.296.7608 or 800.657.3769 or by email at [MHFA.ReportWrongdoing@state.mn.us](mailto:MHFA.ReportWrongdoing@state.mn.us);
- Any member Minnesota Housing’s [Servant Leadership Team](#), as denoted on Minnesota Housing’s current organizational chart (Go to [mnhousing.gov](http://mnhousing.gov), scroll to the bottom of the screen and select About Us, select Servant Leadership Team); or
- [Report Wrongdoing or Concerns \(mnhousing.gov\)](#) (Go to [mnhousing.gov](http://mnhousing.gov), scroll to the bottom of the screen and select Report Wrongdoing).

## **Chapter 3 – Master Servicer Requirements**

Minnesota Housing’s Master Servicer, U.S. Bank – HFA Division, has requirements in addition to Minnesota Housing’s program requirements and underlying product guidelines. U.S. Bank – HFA Division’s requirements may be more restrictive and may vary by different state Housing Finance Agencies.

Lenders should review and comply with all applicable U.S. Bank – HFA Division requirements, including Minnesota Housing specific requirements, in [AllRegs](#). U.S. Bank – HFA Division has an Overlay Matrix resource on AllRegs highlighting common overlays (not comprehensive). In addition to U.S. Bank – HFA Division’s overlays, Lenders must follow U.S. Bank – HFA Division’s loan delivery, documentation, servicing, fees policies and all other due diligence.

## **Chapter 4 - Borrower Eligibility**

### **4.01 Borrower**

One individual or multiple individuals are eligible to be a Borrower only if the individual(s) meet the requirements set forth in this Procedural Manual.

### **4.02 Borrower Age**

The Borrower(s) must be 18 years of age or older or minors declared emancipated by a court having jurisdiction.

### **4.03 Co-Signers**

Co-Signers are permitted on Step Up Program loans. Co-Signers must sign the Step Up Program loan note and the Monthly Payment Loan note, if applicable. Co-Signers are not vested in title to the property and are not required to reside in the subject property.

### **4.04 Unauthorized Compensation**

The Borrower(s) may not receive kickbacks, rebates, discounts, or compensation from any subcontractor, realtor, or property seller.

### **4.05 Principal Residence/Occupancy Requirement**

At a minimum, one Borrower must intend to occupy the financed dwelling as a Principal Residence.

### **4.06 Qualified Homebuyer Education**

If all Borrowers are First-Time Homebuyers, at least one Borrower must complete an approved homebuyer education course prior to closing. A copy of the certificate of completion must be in the loan file. Minnesota Housing does not have a Homebuyer Education certificate expiration date policy. [Approved Homebuyer Education](#) courses are listed on our website.



## 4.07 Credit Score and Debt-to-Income (DTI) Ratios

The Step Up Program Loan credit score and debt-to-income (DTI) requirements vary based on underlying loan products. Refer to Minnesota Housing’s [Credit and DTI Matrix](#) for credit score and DTI requirements by product types.

Refer to the following product descriptions on Minnesota Housing’s website for additional conventional product requirements:

- [Fannie Mae HFA Preferred™ Product Description](#)
- [Freddie Mac HFA Advantage®](#)

Minnesota Housing offers these product descriptions and the following chart as resources for Lenders. The Lenders are advised to fulfill their due diligence in adhering to all underlying product and U.S. Bank–HFA Division requirements, and should not solely rely on the tools provided in this Procedural Manual.

See [AllRegs](#) for additional, specific U.S. Bank– HFA Division requirements.

**Table 1. Industry Standard Credit Score Guidance**

Number of Scores	Guidance	Minimum Credit Score/Maximum Debt-to-Income Ratio (DTI)
3 scores	Use middle of scores	Refer to Minnesota Housing’s <a href="#">Credit and DTI Matrix</a>
2 scores	Use lower of the two scores	
1 score	Use available score	
Multiple Borrowers: all with credit scores	Use lowest middle score available	
Multiple Borrowers: at least one Borrower has a credit score and the other Borrower(s) does not have a credit score	Defer to underlying product guidelines	
Sole Borrower or Multiple Borrowers: No score	Defer to the underlying product guidelines	
Insufficient credit to support an AUS Approval or has erroneous/ inaccurate credit or disputed credit	Defer to underlying product guidelines	

## 4.08 Program Income Limits

The income used to qualify the Borrower may not exceed the Step Up Program [income limits](#) posted on Minnesota Housing’s website. Income is defined by and calculated according to credit underwriting guidelines (i.e. qualifying income) for the underlying loan product (FHA, RD, VA, Fannie Mae, or Freddie Mac).

#### **4.09 Loans to Employees and Affiliated Parties**

The Lender may make Minnesota Housing loans to their directors, officers, employees, or their families as well as to builders, realtors, or their families, and any other principal with whom the Lender does business. Minnesota Housing employees and their families are also eligible. The Borrower must meet all eligibility criteria for the program.

## Chapter 5 - Property Eligibility

### 5.01 Eligible Properties

Properties eligible for a loan under Step Up Program must be located in the State of Minnesota and may include any of the following housing types.

- A single-family detached residence
- A unit within an eligible Planned Unit Development (“PUD”)
- A condominium unit
- A duplex that meets the following requirements:
  - The Borrower(s) must occupy one unit of a duplex property
  - Must have been a residential property for at least five years before the date of the new mortgage, i.e. cannot be New Construction or recently converted from non-residential use
- A modular home
- A manufactured home that meets the following requirements:
  - Be a double wide or larger manufactured home permanently affixed to a foundation and taxed as real property; and
  - Built to Federal Manufactured Home Construction Safety Standards, administered by U.S. Housing and Urban Development (HUD)

Additionally, eligible properties must meet the following:

- Underlying eligible product guidelines
  - [Fannie Mae HFA Preferred™ Product Description](#) and [Freddie Mac HFA Advantage®](#) product descriptions on [Minnesota Housing’s website](#)
  - If the underlying conventional product guidelines (Fannie Mae HomeReady™ and Freddie Mac HomePossible®) conflict with the Minnesota Housing conventional product descriptions above, defer to the Minnesota Housing conventional product descriptions.
- U.S. Bank – HFA Division requirements
- Refer to [AllRegs](#)

### 5.02 Ownership Interest

Eligible forms of ownership interest include the following:

- Fee simple interest
- Joint tenancy
- Community Land Trust (CLT)
- Tenancy in common
- Tenants by the entirety
- Sole Ownership

### **5.03 Loan and Purchase Price Limits**

The maximum purchase price for purchase transactions and the maximum loan amount for refinance transactions may not exceed the [purchase price/loan amount limits](#) posted on [Minnesota Housing's website](#).

### **5.04 New Construction Property Requirements**

Newly constructed properties must meet the following requirements:

- The land must be zoned for residential housing
- The land must not have been annexed within the previous calendar year
- A certificate of occupancy or legal document that proves a house is safe to inhabit must be issued for the property before loan closing
- The Borrower(s) may not act as the general contractor

## Chapter 6 – Loan Eligibility

### 6.01 Eligible Loans

U.S. Bank – HFA Division purchases closed loans from the Lender under a Participation Agreement in Minnesota Housing mortgage loan programs. The Lender must warrant that the following criteria are met for each loan submitted for purchase.

Eligible loan types:

- Purchase transactions
- Refinance transactions:
  - No cash out
  - Limited cash out

Eligible Government loan products:

- Federal Housing Administration (FHA), including:
  - FHA 203(k) Limited
  - FHA Streamline Refinance
- Veterans Administration (VA), including:
  - VA Streamline Refinance (IRRRL – Interest Rate Reduction Refinance Loan)
- Rural Development (RD), including:
  - RD Streamline Refinance
  - RD Streamline Assist Refinance

Eligible Conventional loan products:

- [Fannie Mae HFA Preferred™](#)
- [Freddie Mac HFA Advantage®](#)

Lenders are advised to refer to the conventional product descriptions on the Minnesota Housing website for product requirements.

Program loans must satisfy the following criteria:

- All local, state and federal laws, and regulations including those relating to the Fair Housing Act, the Truth in Lending Act (TILA) and Minnesota’s Human Rights Act are met
- The loan must be originated and closed in, or assigned to, the Lender that is a party to the Participation Agreement. That Lender must have locked the loan(s) on the Minnesota Housing loan commitment system

## **6.02 Interest Rate/Amortization Requirements**

Minnesota Housing requires that all loans:

- Have a fixed interest rate
- Are fully amortizing over the term of the loan
- Are payable on the first of each month in level monthly installments that include at least principal and interest.

The interest rates for Minnesota Housing loan programs are listed [here](#).

## **6.03 Mortgage Term**

All loans must have a 15-year or 30-year term.

## **6.04 Private Mortgage Insurance Coverage Requirements**

All loans requiring private mortgage insurance must have coverage at the levels prescribed by the underlying mortgage product guidelines.

## **6.05 Private Mortgage Insurance Companies – Minimum Requirements**

Minimum requirements for private mortgage insurance companies must meet underlying loan product guidelines.

## **6.06 Settlement/Closing Costs**

Settlement and closing costs, fees, or charges the Lender collects from any party in connection with any loan must:

- Comply with Minnesota law
- Meet all requirements of the insurer/guarantor
- Not exceed an amount deemed usual or reasonable for the type of transaction (e.g. FHA, VA, Conventional)

## **6.07 Gifts**

All gifts received by the Borrower(s) for a Minnesota Housing loan must satisfy the requirements of the applicable underlying first mortgage loan product and the insurer/guarantor.

## **6.08 Non-Minnesota Housing Secondary Financing**

Secondary financing offered by a city or county government, a non-profit, or a for-profit, including downpayment assistance, community seconds (including resale restrictions), or other forms of secondary financing used in conjunction with a Minnesota Housing loan, must comply with the following:

- Meet all requirements of the applicable first mortgage loan product and insurer/guarantor (i.e., FHA Secondary Financing, Fannie Mae Subordinate Financing, Freddie Mac Affordable Seconds)
- The Borrower may receive cash back at closing from secondary financing proceeds only when the cash back is a refund of the Borrower's own investment, as allowed by the first mortgage product
- Minnesota Housing requires full disclosure of any and all secondary financing
- For transactions using Minnesota Housing's Monthly Payment Loan:
- The Monthly Payment Loan must be in a second mortgage lien position

## **6.09 Non-Complying Loans**

Minnesota Housing or U.S. Bank – HFA Division has the right to take one or more of the following actions in the event a Lender submits a mortgage loan that does not, as determined by Minnesota Housing or U.S. Bank – HFA Division, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan
- If not already purchased, refuse to purchase the loan
- If already purchased, require the Lender to repurchase the loan for the purchase price
- Terminate, suspend, or otherwise limit the Lender's Participation Agreement with Minnesota Housing or U.S. Bank – HFA Division
- Preclude the Lender from future participation in Minnesota Housing programs

## Chapter 7 – Downpayment and Closing Cost Loans

The only Minnesota Housing downpayment and closing cost loan option available with the Step Up Program is the Monthly Payment Loan.

### 7.01 Monthly Payment Loan Requirements

The Monthly Payment Loan provides funds to pay for eligible expenses, including downpayment and customary buyer closing costs. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan purchased by U.S. Bank—HFA Division.
- Are available in whole dollar amounts up to \$18,000
- Must occupy a second lien position when combined with a non-Minnesota Housing Community Second Mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year loan term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- May be used to combine the balance of an existing Monthly Payment Loan into a new Monthly Payment Loan when:
  - The Borrower is refinancing their first mortgage into a Step Up Program loan, and
  - The new Monthly Payment Loan (the combined total of the payoff of the existing Monthly Payment Loan and new funds) does not exceed the Monthly Payment Loan maximum loan amount
- May be used by Borrowers refinancing:
  - A Start Up Program loan into a Step Up Program loan
  - A Step Up Program loan into a new Step Up Program loan
  - A first mortgage from another institution into a Step Up Program loan
- Must be paid in full when, among other things referenced in the loan Note, the following occur:
  - The property ceases to be Owner-Occupied
  - The property is sold or transferred
  - The first mortgage loan is paid in full, including upon a refinance (see section 7.05 Subordination for subordination information); or
  - The first mortgage loan is in default or is declared to be due and payable in full
- May not be assumed



## 7.02 Monthly Payment Loan Borrower Eligibility

The Borrower(s) must satisfy all Step Up Program eligibility requirements as well as the following additional requirements for the Monthly Payment Loan.

**Income Limits.** All Step Up Program borrowers may access the Monthly Payment Loan. Monthly Payment Loans have no separate income limit.

**Homebuyer Education.** Qualified Homebuyer Education is required of at least one Borrower in a First-Time Homebuyer household. (See section 4.06 for more details.)

**Cash Investment.** A minimum cash investment of the lesser of 1% of the purchase price or \$1,000, including prepaids, is required only for purchase loans. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan, or sweat equity contribution.

**Asset Limit.** The Monthly Payment Loan has no asset limit.

### Cash to the Borrower at Closing.

The Borrower(s) may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower at closing is a refund of dollars paid outside of closing and is reflected on the Closing Disclosure
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement
- The underlying first mortgage product and the insurer/guarantor allow the refund

## 7.03 Monthly Payment Loan Lender Warranties

In addition to the warranties stated in Section 1.08, the Lender warrants the following:

- The Borrower's cash investment is paid from the Borrower's own funds
- The funds received by the Borrower are applied to the transaction and verified through the Closing Disclosure

## 7.04 Second Mortgage Application and Loan Disclosure Procedures

The Lender must follow mortgage industry standard requirements for second mortgages when originating loans under the Monthly Payment Loan.

The Lender should consult with its compliance department or legal counsel for additional information and guidance in completing required disclosures.

## **7.05 Subordination**

Minnesota Housing permits the subordination or replacement of a Homeownership Assistance Fund (HAF) Loan, a Deferred Payment Loan (DPL) or a Monthly Payment Loan (MPL) only in cases where the Minnesota Housing first mortgage is refinanced to a Step Up Program Loan. The Borrower is not eligible for more than one Minnesota Housing downpayment and closing cost loan. For more details see the Minnesota Housing [Subordination Options Guide](#).

## **Chapter 8 – Commitment/Disbursement**

See Minnesota Housing’s website for:

- The [Lock, Fee, and SRP Guide](#)
- The [Loan Commitment System Page](#)

## Chapter 9 – Documentation Requirements

### 9.01 Loan Processing and Closing

All loans submitted must meet the following requirements:

- The loan must be closed and disbursed before completing the True and Certify process in the Minnesota Housing loan commitment system.
- The Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan. All loan documents other than Minnesota Housing Forms must be industry standard and meet the requirements of U.S. Bank – HFA Division, the underlying loan product, and the insurer/guarantor, as applicable. See the Minnesota Housing website for more details on required forms.
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and appropriate stages of the loan.
- Purchase and Non-Streamline Refinance loans underwritten utilizing industry standard automated underwriting systems require full documentation when verifying income and assets to confirm Minnesota Housing eligibility. (Streamline Refinance transactions should follow underlying product guidelines pertaining to income and asset documentation requirements. However, Minnesota Housing does require the lender to obtain the Borrower's income for Streamline Refinance transactions, even if the underlying product guidelines do not, and the income must meet program guidelines and be entered in Minnesota Housing loan commitment system.
- Minnesota Housing forms may not be altered in any way. Industry standard forms may not be altered in any way other than to add a company name and logo.
- The first mortgage loan and the second mortgage loan (if applicable) must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that locked the loan (s) on the Minnesota Housing loan commitment system.
- All first mortgage assignments must run directly from the Lender to U.S. Bank – HFA Division.
- All second mortgage assignments must run directly from the Lender to the Minnesota Housing Finance Agency.
- The Lender must submit final documents to U.S. Bank – HFA Division within 120 days of U.S. Bank – HFA Division's loan purchase.
- Product specific requirements must be met: for Conventional HFA product requirements – refer to the [Fannie Mae HFA Preferred™ Product Description](#) and [Freddie Mac HFA Advantage®](#) product descriptions on [Minnesota Housing's website](#).

## **9.02 Minnesota Housing Documentation/Delivery Requirements**

- U.S. Bank – HFA Division provides the Delivery Checklist form detailing specific documentation and delivery requirements. The Lender must fully execute and deliver documents within the designated timeframes.
- The Lender must review any and all contracts in connection with the residence sale transaction to ensure compliance with this Procedural Manual.

Documentation not delivered to U.S. Bank – HFA Division within the specified timeframes may result, at Minnesota Housing’s or U.S. Bank – HFA Division’s discretion, in the Lender repurchasing the loan or any other remedy as identified in this Procedural Manual. Minnesota Housing or U.S. Bank – HFA Division, at their sole discretion, may extend the timeframes identified in the Delivery Checklist.

## **9.03 Signature Requirements**

Minnesota Housing accepts electronic signatures (eSignatures) on loan documents executed under the Step Up Program to the extent Lender complies with all applicable state and federal electronic signature laws, as well as any counterparty requirements (e.g. Fannie Mae, Federal Housing Administration, U.S. Bank HFA Division). However, eSignatures are not acceptable on any document that needs to be recorded with the county. Under no circumstances may a Borrower be required to use electronic signatures.

## **9.04 Records Retention**

The Lender must retain any and all compliance documents (including compliance with Minnesota Housing program guidelines) as may be required by the Lender’s regulatory authority, the requirements of the underlying loan product, and the requirements of the insurer/guarantor, as appropriate.

The loan product and insurer/guarantor minimum or alternative documentation requirements do not relieve the Lender from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing or loan audit.

## Chapter 10 – Servicing

### 10.01 Servicing

Minnesota Housing may, at its discretion, subject to any contractual provisions between Minnesota Housing and U.S. Bank – HFA Division, change the Master Servicer.

### 10.02 Lender Servicing Responsibilities

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to U.S. Bank – HFA Division purchase, the Lender must perform all required servicing functions for the loan until it is transferred to U.S. Bank Servicing. This includes collecting and applying all loan payments for both the Step Up Program loan and the Monthly Payment Loan, if applicable, made by the Borrower(s) in accordance with State and Federal servicing regulations. Loan payments collected must include:

- The Step Up Program loan monthly principal and interest
- The Monthly Payment Loan monthly principal and interest, if applicable
- 1/12th of annual property tax
- The Mortgage insurance, if applicable
- Flood insurance, if applicable
- Hazard insurance (escrows)
- Assessments, if applicable

In addition, the Lender must complete the following servicing activities for both the Step Up Program Loan and, if applicable, the Monthly Payment Loan:

- Maintain payment history indicating:
  - The breakdown of principal, interest, and escrows
  - Any principal repayments
  - The remaining principal balance of the loan
  - The collection of any past due payments
  - The Lender must also provide to the borrower as applicable, any
  - Required tax reporting
  - Required servicing notices
  - Servicing Transfer disclosure notices

The Lender must retain all statements, documents, and correspondence related to servicing the loan in the loan file that is transferred to U.S. Bank Servicing.

### **10.03 Hardship Policy**

Minnesota Housing has in place a hardship policy for its Monthly Payment Loan. The hardship policy allows forgiveness either in part or in whole if a Borrower is experiencing a financial hardship(s) which prevents them from having the financial ability to pay back the full indebtedness. Hardship will be evaluated at the time of the instance and upon request of the borrower. A determination will be made in accordance with servicing policies in effect at that time.

## Appendix A: Definitions

TERM	DEFINITION
Co-Signer	A party that is obligated to repay the loan. A Co-Signer assumes only personal liability and has no ownership interest in the property.
First-Time Homebuyer	A Borrower(s) who has not had an ownership interest in their principal residence in the three years preceding execution of the mortgage documents (loan closing).
Master Servicer	A company selected by Minnesota Housing to purchase, securitize and service mortgage loans originated pursuant to Minnesota Housing’s mortgage loan programs.
New Construction or Newly Constructed Residence	New Construction or a Newly Constructed Residence refers to a residence, which has either never been occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or bridge loan).
Owner Occupied	At least one Borrower must occupy the Property within 60 Days of signing the security instrument and continue to live in the home for the majority of the year during every year of the loan term. Non-occupancy is allowed for situations of verified military deployment.
Participation Agreement	The Participation Agreement for Minnesota Housing Single Family Programs executed between the Lender and Minnesota Housing that allows the Lender to participate and offer Minnesota Housing’s Start Up and Step Up mortgage loan programs.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and their household.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed as outlined in its entirety in Section 4.06 of this Procedural Manual.
True and Certify	The loan-level process in Minnesota Housing’s loan commitment system completed by the Lender that certifies all the information entered into the system is true and accurate.



## **Appendix B: Forms List**

See [www.mnhousing.gov](http://www.mnhousing.gov) for required [Step Up Program forms](#).