Minnesota Housing Finance Agency

MEETINGS SCHEDULED FOR JULY

Location:

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

THURSDAY, JULY 26, 2012

Regular Board Meeting
State Street Conference Room - First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, July 26, 2012.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

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Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

A G E N D A

Minnesota Housing Finance Agency
Board Meeting
Thursday, July 26, 2012
1:00 p.m.

State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
2. **Agenda Review.**
3. **Approval of the Minutes**
   A. Regular Meeting of June 21, 2012.
4. **Chairman's Report.**
5. **Commissioner's Report and Introductions.**
6. **Audit Committee.**
   None.
7. **Program Committee.**
   None.
8. **Finance Committee.**
   None.
9. **Action Items:**
   A. Summary Review:
      1. Approval, Commitment Low and Moderate Income Rental (LMIR) Program
         - Park Manor Estates, Detroit Lakes.
      2. Approval, Commitment Low and Moderate Income Rental (LMIR) Program
         - Riverside Terrace, Thief River Falls.
      3. Approval, Modification, Asset Management Loan
         - Northwoods Commons, Baudette.
      4. Approval, Modification, Asset Management Loan
         - Valleyview Commons, Mahnomen.
   B. Discussion – General:
      1. Approval, 2013-2015 Strategic Plan.
      2. Approval, Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Homeownership Finance Bonds, 2012 Series A (Mortgage Backed Securities Program).
   C. Discussion – Homes:
      1. Approval, Changes, Mortgage Loan Program Procedural Manual: MBS.
      2. Approval, Changes, HOME Homeowner Entry Loan Program (HELP) Procedural Manual.
   D. Discussion – Multifamily:
      None.
10. **Review and Information Items.**
    A. Information, Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2012.
11. **Other Business.**
    None.
12. **Adjournment.**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, June 21, 2012
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair Ken Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:02 p.m.
   Members present: Gloria Bostrom, John DeCramer, Ken Johnson, Steve Johnson, Stephanie Klinzing and Auditor Otto. **Absent:** Joe Johnson.
   Minnesota Housing staff present: Commissioner Mary Tingerthal, Paula Beck, Dan Boomhower, Jim Cegla, Andrew Hughes, Bill Kapphahn, Karmel Kluender, Marcia Kolb, Holly Krachmer, Elyse Lawrey, Diana Lund, Eric Mattson, Tonja Orr, John Patterson, Tony Peleska, Leslee Post, Joel Salzer, Becky Schack, Kayla Schuchman, Terry Schwartz, Barb Sporlein, Kim Stuart, Julie Tarlizzo, LeAnne Tomera, Will Thompson, Dan Walsh, Don Wyszynski, Xia Yang.
   Others present: Chip Halbach, Minnesota Housing Partnership; Cory Hoeppner, RBC; Tom O'Hern, Assistant Attorney General; Celeste Grant, Office of the State Auditor.
2. **Agenda Review.**
   Chair Ken Johnson reported the following changes to the agenda. Revised copies had been distributed to members:
   - 9.A.1 – The language of the resolution had been revised.
   - 9.A.2. – All four resolutions for execution would be corrected to reflect a commitment expiration date of 2012. The resolution for Southview Terrace had a correction to the property location.
   - 9.B.2 – Handouts had been provided as a supplement.
3. **Approval of the Minutes.**
   A. Regular Meeting of May 24, 2012
   Auditor Otto moved approval of the minutes with the following change:
   - Correct the call to order to reflect that the meeting was called to order by Vice Chair Joe Johnson.

   Member Klinzing seconded the motion. Motion carries 6-0.
4. **Chairman's Report.**
   Chair Johnson announced that the board would have a committee meeting in July in conjunction with the regular meeting. Proposed changes to the bylaws would be reviewed at the committee meeting and, during the fourth quarter of the year, members would review changes to policies, including the order of the agenda.
5. **Commissioner's Report and Introductions.**
   Commissioner Tingerthal welcomed new member John DeCramer, who was introduced at the Audit Committee meeting. She reiterated that materials would be prepared for a governance discussion in July but that members would not be asked to take action at that time but have a discussion. Assistant Attorney General O'Hern would prepare suggested amendments to the bylaws ahead of that meeting and those suggested amendments would be discussed, but not adopted, at that time.

Members were provided with copies of Commissioner Tingerthal's testimony to the Bi-Partisan Policy Center's Housing Commission, where her comments focused on the preservation of existing affordable rental housing, including providing dollars to ensure that existing properties are energy efficient and safe so that they may continue to serve people for years to come. The comments were well received by the Commission. Agency staff are working to prepare more in-depth papers that will be submitted to the Commission by the end of the month.

While in St. Louis for the Commission hearing, Commissioner Tingerthal also participated in a Federal Home Loan Bank of Des Moines sponsored community lending roundtable. The participants were mostly small community banks and a discussion took place with commission members about the state of mortgage lending in primarily rural but also urban communities. Lenders reported that they've been negatively affected by considerably higher amounts of compliance as a result of foreclosure crisis, more oversight and capital requirements imposed by regulators and an atmosphere where Fannie Mae and Freddie Mac are aggressively requiring repurchase. Some lenders reported that they are considering leaving the mortgage business because they cannot continue on a cost effective basis. The Agency relies on community lenders for our business and it is an issue to which attention must be paid.

Commissioner Tingerthal also spoke to the staff of the Federal Housing Finance Agency; the regulatory body that oversees the Federal Home Loan Banks. The Commissioner talked with staff about the role of state housing finance agencies in financing multifamily projects and providing good, safe and well-managed mortgages for first time homebuyers.

The following activities were also reported:

- The draft strategic plan had been completed and that staff would later in the meeting highlight the use made of the work done in preparation for the plan both in national and local venues.
- Staff have begun planning for next year's budget and priorities. Affordable housing options for older adults will be in the research phase this year and it is anticipated that, beginning with next year's Affordable Housing Plan, staff will have recommendations for addressing the housing needs of older adults. This is a rising issue that was recently addressed earlier this month by national speakers at an Urban Land Institute sponsored conference in Minneapolis at which Commissioner Tingerthal was a panelist.
- Agency staff reconvened the housing advocates group that worked on the unified bonding request during the last legislative session. The group remains committed to having a single message for the upcoming legislative session and will continue to meet regularly.
- Recommendations for the future direction of homeownership programs would be brought for approval at the July meeting. Staff initially presented information regarding these changes to the Board at its April meeting. Staff continue to investigate alternative financing methods.

The following staff introductions were made:

- Marcia Kolb introduced LeAnne Tomera. LeAnne comes to the Agency from Luther Seminary and will support the management staff in the Multifamily Division.
- John Patterson introduced Elyse Lawry. Elsye is an intern from the University of Minnesota – Duluth double majoring in Indian Studies and English. Elyse has a housing

background and is a member of the Portage Band of Ojibwe. Elyse is documenting the history of Indian and Tribal Housing programs. Mr. Patterson also provided an introduction of Phuong Vu, who was unable to attend the meeting. Phuong is studying Econometrics at Macalester and will do modeling based on revenues, rents and expenses. Phuong's previous experience includes a position as a credit analyst with CRF.

- Julie Tarlizzo introduced Holly Krachmer. Holly had been with the Agency in a temporary paralegal position that has been converted to permanent. Previous to joining the Agency, Holly worked as a paralegal with a private law firm.
- Commissioner Tingerthal announced that Margaret Kaplan has accepted the position of Community Development Director and that the legislative liaison position had been filled by Katie Topinka.

6. Audit Committee:
Chair Johnson reported that members heard a preliminary report from the CliftonLarsonAllen audit team. **MOTION:** Auditor Otto moved to accept the report of the Audit Committee. Member Bostrom seconded the motion. Motion carries 6-0.

7. Program Committee:
None.

8. Finance Committee:
None.

9. Action Items:

A. Summary Review:

9.A.(1). Approval, Resolution Authorizing the Execution and Delivery of Standby Bond Purchase Agreements with The Royal Bank of Canada and Wells Fargo Bank, National Association and Amending Related Series Resolutions.

9.A.(2). Approval, Commitment Extensions.
- **Matthews Park, Minneapolis.**
- **Southview Terrace, Hibbing.**
- **Town Square Apartments, East Grand Forks - D0483**
- **Woodcrest Manor, Mora.**

9.A.(3). Approval, Commitment Extensions for 2010 RFP Selections
- **Low and Moderate Income Rental (LMIR) and Section 1602 Exchange**
  - **Northgate Woods, Blaine.**
- **Low and Moderate Income Rental (LMIR) and Fixed Financing for Capital Costs (FFCC)**
  - **Shingle Creek Towers, Brooklyn Center.**
- **Economic Development and Housing Challenge Fund**
  - **Longfellow Station, Minneapolis.**
  - **West Side Flats, St. Paul.**
- **Preservation Affordable Rental Investment Fund (PARIF)**
  - **CIP/Bass Lake Road, Crystal.**
  - **St. Phillips Garden, St. Paul.**
- **Publicly Owned Housing Program (POHP)**
  - **1258-87 Shakopee Ave East, Shakopee.**
  - **Anna Maries Shelter, St. Cloud.**
  - **Cass County Transitional Housing, Backus.**
  - **Veterans Transitional Housing, Grand Rapids.**
  - **Olmstead County HRA Scattered Sites**
- **Publicly Owned Housing Program (POHP) and Housing Trust Fund (HTF) Capital**

- **Transitional Housing**

In response to a question regarding 9.A.1, Mr. Don Wyszynski stated that the Agency may have an adverse impact to its ratings if it were to have standby purchase agreements in excess of certain amounts with single providers. As a result, the Agency has agreements with multiple providers. The agreements being presented for approval replace agreements that had been in place for more than seven years. The existing, expiring, agreements were entered into during a different financial time and similar rates are not longer available today. **MOTION:** Member Klinzing moved approval. Member DeCramer seconded the motion. Motion carries 6-0.

B. Discussion – General:

9.B.(1). Discussion, 2013-2015 Draft Strategic Plan.

Commissioner Tingerthal and Deputy Commissioner Barb Sporlein presented the draft strategic plan. The Commissioner stated that the core of the plan is preserving our financial strength both short- and long-term. Staff were recognized for their outreach to Agency partners and stakeholders to determine what works and what needs changing. Key points on the plan included:

- The Agency must have a strong organizational structure to accomplish the goals of the plan.
- The Plan must be, and is, clear, consistent, concise, strategic, relevant and professional.
- The priorities are not radically different than in previous plans but are more targeted around the activity, i.e. ownership and rental.

Discussion followed regarding the role of the Agency relate to ending long-term homelessness, new financing mechanisms for homeownership, Agency relationships with partners, and prioritizing preservation efforts. No action needed.

9.B.(2). Information, Fiscal 2013 Administrative Budget.

Ms. Barb Sporlein highlighted information contained within the budget, stating that the current budget contains an approximately 5% increase over the previous year's budget. Seventy-three percent of the budget is for salaries and benefits and administrative expenses remain steady at 3.75%. In response to a question regarding professional development funds, Ms. Sporlein stated that the 2013 budget has a better informed and more accurate number than the previous year's budget. Ms. Sporlein also stated that the Agency has 11 additional full time equivalent positions versus last year and that salary increases are directed by Minnesota Management and Budget. No action needed.

C. Discussion – Homes:

9.C.(1). Approval, Affordable Housing Plan Amendment, Homeownership Assistance Fund

Ms. Kim Stuart requested approval of a reallocation of funds within the current affordable housing plan, noting that approval of the transfer of funds from the technical assistance (TA) and operating support (OS) fund to the homeownership assistance fund would still allow TA and OS funding for the remainder of the program year. Ms. Stuart also requested approval of a technical change that would allow excess carryforward to be used for new commitments. The changes, if approved, will allow the program to continue to make entry cost assistance available to first time homebuyers. Because of the small spread between Minnesota Housing loans and market, most buyers using Minnesota Housing loans are also in need of entry cost assistance. These changes, if approved, would become effective October 1. **MOTION:** Member Bostrom moved approval. Auditor Otto seconded the motion. Motion carries 6-0.

D. Discussion – Multifamily:

9.D.(1). Approval, Selection/Commitment, Preservation Affordable Rental Investment Program (PARIF)

- **Galway Place, Coon Rapids**

Ms. Leslee Post presented this item for approval, noting that this Section 8 family townhome development had a 30-year HAP contract that expired in May, 2012. Staff has worked with the owner in order to preserve the housing. **MOTION:** Member Bostrom moved approval, Auditor Otto seconded the motion. Motion carries 6-0.

10. Review and Information Items.

A. Information, Economic Development and Housing Challenge Program, Resident Owned Manufactured Home Parks Pilot Program Update.

Information item, no presentation given and no approval needed.

B. Post-Sale Report, Rental Housing Bonds, 2012 Series A.

Information item, no presentation given and no approval needed.

11. Other Business.

None.

12. Adjournment.

The meeting was adjourned at 2:32 p.m.

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.A.(1)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Park Manor Estates, Detroit Lakes – D0406

CONTACT: Dan Walsh, 651-296-3797
dan.walsh@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Minnesota Housing Finance Agency ("Agency") staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the estimated amount of $4,610,184 subject to the review and approval of the Mortgagor and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the current Affordable Housing Plan (AHP), staff proposed and the Board allocated $68 million in new activity for the LMIR program, including $28 million from the Housing Investment Fund (Pool 2). Funding for this loan falls within the approved budgets and the loan will be made at an interest rate and on terms consistent with what is described in the AHP.

This LMIR loan will generate $128,831 in fee income (construction oversight fee and origination fee) as well as interest earnings, which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

☐ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Background
- Development Summary
- Resolution

BACKGROUND

At its November 17, 2011 meeting, the Minnesota Housing Finance Agency Board, approved this development for processing under the under the Low and Moderate Income Rental (LMIR) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**		**COMMITMENT**		**VARIANCE**	
Total Development Cost	$10,924,153		$11,655,366		$731,213	
Acquisition or Refinance Cost	$4,700,000		$4,700,000		$0	
Gross Construction Cost	$4,330,622		$4,331,634		$1,012	
Soft Costs (Excluding Reserves)	$1,582,563		$1,861,232		$278,669	
Non-Mortgageable Costs (Excluding Reserves)	$0		$0		$0	
Reserves	$310,968		$762,500		$451,532	
Agency Sources:						
LMIR (Pool 2)	$4,452,671		$4,610,184		$157,513	
Total Agency Sources	$4,452,671		$4,610,184		$157,513	
Other Non-Agency Sources:						
Syndication Proceeds	$6,366,482		$7,045,182		$678,700	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
1 BR	84	$669	84	$669	0	$0
2 BR	1	$766	1	$766	0	$0
2 BR	12	$710	12	$710	0	$0
Total Number of Units	97		97		0	

<u>Factors Contributing to Variances:</u>
Due to overall improvement in the tax credit market since 2011, the developer was able to realize a higher pricing for the Housing Tax Credits. Current pricing is $0.87 per tax credit.

Soft costs rose due to increases in architect fees, financing fees and bridge loan interest. The reserves rose due to the addition of an investor-required HAP re-tenanting reserve to cover potential losses if HUD does not renew the development's HAP contract in 2019.

The current commitment rents are the approved HAP contract gross rent amounts.

<u>Other significant events since Board Selection:</u>
Bridgewater Bank has committed to providing an equity bridge loan of approximately $2.3 million. The bridge loan will ensure the project budget is in balance through completion of construction.

DEVELOPMENT SUMMARY

DEVELOPMENT:

			D0406
Name:	Park Manor Estates		App#: M16118
Address:	Multiple Building Addresses		
City:	Detroit Lakes	County: Becker	Region: NWMIF

MORTGAGOR:

Ownership Entity: Park Manor Estates II LP
General Partner/Principals: Schuett Park Manor Estates LLC

DEVELOPMENT TEAM:

General Contractor:	Frerichs Construction, Saint Paul
Architect:	Kaas-Wilson Architects, Minneapolis
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	The Schuett Companies, Inc, Golden Valley
Service Provider:	Mahube Community Council, Detroit Lakes

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 4,610,184	LMIR First Mortgage	
	Funding Source:	Hsg Investment Fund(Pool 2)
	Interest Rate:	4.75%
	MIP Rate:	0.25%
	Term (Years):	30
	Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY
1BR	84	590	$669	$675	$28,800
2BR	1	840	$766	$810	$32,400
2BR	12	1,055	$710	$810	$32,400
TOTAL	97				

NOTE: Gross rent is the current, approved HAP contract rent.

Purpose:

Park Manor Estates is the acquisition and substantial rehabilitation of a 97 unit Section 8 development that has been part of the Minnesota Housing's portfolio for many years. This development serves both an elderly (85 apartment units) and a family (12 townhome units) population. Minnesota Housing originally financed this development under the Section 8 program with an initial closing in 1980 and an original principal balance of $2,850,126. This thirty year mortgage will reach its natural maturity in August 2020. Repositioning this property for the long term will leverage an estimated $11.6 million (present value) of federal Section 8 rental assistance over the 30 year term of the new LMIR loan.

The Schuett Companies is using part of the proceeds from the Park Manor Estates transaction to buy-out Williams Steel & Hardware, Inc. ("Williams") controlling general partner interests in Riverside Terrace, Park Manor Estates and six other Schuett properties. Williams' financial condition deteriorated so much that it threatened to unilaterally sell its interests to the general public causing it to default on various agreements including the development's HAP contract, which met the Agency's criteria for preservation risk. Even though the remaining six properties are mostly in small markets, there are many benefits to preserving the properties from the proceeds of the Park Manor Estates and Riverside Terrace transactions. The six properties contain 347 project-based Section 8 units.

Target Population:
Park Manor Estates is a combination senior building and family townhouse development that provides affordable housing to low income individuals and families. Five units will be designated to serve households who have experienced long term homelessness.

Project Feasibility:
The owner and management company have maintained this property for 30 years; however, the building needs to be updated. Completion of the rehabilitation will help to ensure the development competes well in the marketplace for the long term.

Development Team Capacity:
All members of the development team have substantial experience in their chosen fields, and the development team appears to have the capacity to successfully own and manage this development. The developer, the Schuett Companies, Inc.'s most recent developments were the rehabilitations of Hillside Terrace, a 44 unit development in Long Lake; Westgate Apartments, a 100 unit development in Hibbing; and Red Pine Apartments, an 88 unit development in Bemidji.

Schuett Companies, Inc. has been the general partner of the ownership entity of this property for 32 years. Management staff at the Schuett Companies is knowledgeable and responsive. Developments are well maintained and good policies and practices are in place. Accurate asset management reports are submitted on time. The Schuett Companies currently has 26 developments managing a total of 1,718 units. Their portfolio consists of project based section 8 for the elderly/disabled/family and market rate developments. They currently have 13 Minnesota Housing first mortgages.

Physical and Technical Review:
Kaas-Wilson Architects and Frerichs Construction have the capacity to complete the development.

The 97 unit property is located on three sites near downtown Detroit Lakes. The buildings were initially constructed in 1979. Proposed work includes tuck pointing; replacement of windows, appliances, cabinets, fixtures and all major building systems; improvements to corridors and common areas; and site work. Proposed renovation and acquisition costs appear reasonable. Developer proposes to comply with Mandatory MN Overlay to Green Communities.

The rehabilitation is estimated to be $44,116/unit (including a contingency), and the total development cost is at $120,158/unit, which is 15% below the predictive model estimate.

Market Feasibility:
The Detroit Lakes housing market and population growth are stable. The development has maintained consistently high occupancy; currently at 99% with a three year waiting list. The improvements being made to the property will assist in marketability going forward.

Supportive Housing:
Mahube Community Council will offer a variety of services on site at Park Manor Estates including case management, housing supports, benefit assistance, independent living skills, transportation, etc. Mahube has extensive experience serving the homeless population within their service area through various services and housing resources. To ensure long-term homeless residents will have access to services for the long term, service funding will be provided by Mahube.

DEVELOPMENT COST SUMMARY (estimated):

	Total	Per Unit
Total Development Cost	$11,655,366	$120,159
Acquisition or Refinance Cost	$4,700,000	$48,454
Gross Construction Cost	$4,331,634	$44,656
Soft Costs (excluding Reserves)	$1,861,232	$19,188
Non-Mortgageable Costs (excluding Reserves)	$0	$0
Reserves	$762,500	$7,861
Total LMIR Mortgage (Including 4% DCE)	$4,787,499	$49,356
First Mortgage Loan-to-Cost Ratio	41%	
Agency Deferred Loan Sources		
Total Agency Sources	$0	$0
Total Loan-to-Cost Ratio		
Other Non-Agency Sources		
Syndication Proceeds	$7,045,182	$72,631
Total Non-Agency Sources	$7,045,182	$72,631

Board Agenda Item: 9.A.(1)
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Park Manor Estates
Sponsors:	Schuett Development, LLC
Guarantors:	John E. Schuett and the John E. Schuett Revocable Trust
Location of Development:	Detroit Lakes
Number of Units:	97
General Contractor:	Frerichs Construction, Saint Paul
Architect:	Kaas-Wilson Architecture, Minneapolis
Amount of Development Cost:	$11,655,366
Amount of LMIR Mortgage:	$4,610,184

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such construction and permanent mortgage loans are not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $4,610,184; and

2. The Closing of the LMIR loan shall be on or before January 26, 2013 (which shall also be the LMIR Commitment Expiration Date); and

3. The interest rate on the permanent LMIR loan shall be 4.75 percent per annum plus 0.25 percent mortgage insurance premium with monthly payments based on a 30 year amortization; and

4. The term of the permanent LMIR loan shall be 30 years; and

5. Agency staff shall review and approve the Mortgagor; and

6. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

7. John E. Schuett and the John E. Schuett Revocable Trustees, shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved 1.15 debt service coverage (assuming stabilized expenses) for three successive month; and

8. John E. Schuett and the John E Schuett Revocable Trust, by its trustees, shall guarantee the mortgagor's payment obligation (other than principal and interest) under the LMIR Building Loan Agreement, LMIR Regulatory Agreement and LMIR Mortgage with the Agency; and

9. Monies may be released from the development's current liquid reserves to use in financing early start activities for the development provided: 1) such monies shall only be used for early start construction activities for the development as approved by Minnesota Housing staff; and 2) John E. Schuett shall enter into an agreement with Minnesota Housing ensuring the completion of the work to be paid by the reserves even if the loan does not close.

10. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 26th day of July 2012.

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CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.A.(2)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Riverside Terrace, Thief River Falls – D1655

CONTACT: Dan Walsh, 651-296-3797
dan.walsh@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Minnesota Housing Finance Agency ("Agency") staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the estimated amount of $2,056,736 subject to the review and approval of the Mortgagor and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the current Affordable Housing Plan (AHP), staff proposed and the Board allocated $68 million in new activity for the LMIR program, including $28 million from the Housing Investment Fund (Pool 2). Funding for this loan falls within the approved budgets and the loan will be made at an interest rate and on terms consistent with what is described in the AHP.

This LMIR loan will generate $67,374 in fee income (construction oversight fee and origination fee) as well as interest earnings, which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

☐ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Background
- Development Summary
- Resolution

Board Agenda Item: 9.A.(2)
Attachment: Background

BACKGROUND

At its November 17, 2011 meeting, the Minnesota Housing Finance Agency Board, approved this development for processing under the Low and Moderate Income Rental (LMIR) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**		**COMMITMENT**		**VARIANCE**	
Total Development Cost	$7,162,840		$7,260,264		$97,424	
Acquisition or Refinance Cost	$2,800,000		$2,800,000		$0	
Gross Construction Cost	$3,026,350		$3,019,614		($6,736)	
Soft Costs (Excluding Reserves)	$1,176,947		$1,316,650		$139,703	
Non-Mortgageable Costs (Excluding Reserves)	$0		$0		$0	
Reserves	$159,543		$124,000		($35,543)	
Agency Sources:						
LMIR (Pool 2)	$2,003,126		$2,056,736		$53,610	
Total Agency Sources	$2,003,126		$2,056,736		$53,610	
Other Non-Agency Sources:						
Seller Note	$735,562		$0		($735,562)	
Syndication Proceeds	$4,424,152		$5,203,528		$779,376	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
1 BR	66	$665	66	$677	0	$12
Total Number of Units	66		66		0	

Factors Contributing to Variances:
Due to overall improvement in the tax credit market since 2011, the developer was able to realize a higher pricing for the Housing Tax Credits. Current pricing is nearly $0.92 per tax credit. The increase in equity proceeds allowed the developer to remove the seller note.

Soft costs rose due to increases in architect fees, financing fees and bridge loan interest.

The current commitment rent is the approved HAP contract gross rent.

Other significant events since Board Selection:
Bridgewater Bank has committed to providing an equity bridge loan of approximately $1.5 million. The bridge loan will ensure the project budget is in balance through completion of construction.

Board Agenda Item: 9.A.(2)
Attachment: Development Summary

DEVELOPMENT SUMMARY

DEVELOPMENT:

			D1655
Name:	Riverside Terrace		App#: M16117
Address:	225 La Bree Ave S		
City:	Thief River Falls	County: Pennington	Region: NWMIF

MORTGAGOR:

Ownership Entity: Riverside Terrace II LP
General Partner/Principals: Schuett Riverside Terrace LLC

DEVELOPMENT TEAM:

General Contractor:	Frerichs Construction, Saint Paul
Architect:	Kaas-Wilson Architects, Minneapolis
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	The Schuett Companies, Inc., Golden Valley
Service Provider:	Inter-County Community Council, Oklee

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 2,056,736	LMIR First Mortgage	
	Funding Source:	Hsg Investment Fund(Pool 2)
	Interest Rate:	4.75%
	MIP Rate:	0.25%
	Term (Years):	30
	Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
1BR	66	575	$677	$675	$27,080
TOTAL	66				

NOTE: Gross rent is the current, approved HAP contract rent.

Purpose:

Riverside Terrace is the acquisition and substantial rehabilitation of a 66 unit senior Section 8 development that has been part of the Minnesota Housing's portfolio for many years. Minnesota Housing originally financed this development under the Section 8 program with an initial closing in May 1981 and an original principal balance of $1,983,819. This thirty year mortgage reached its natural maturity in May 2010. Repositioning this property for the long term will leverage an estimated $8.24 million (present value) of federal Section 8 rental assistance over the 30 year term of the new LMIR loan.

The Schuett Companies is using part of the proceeds from the Riverside Terrace transaction to buy-out Williams Steel & Hardware, Inc. ("Williams") controlling general partner interests in Riverside Terrace, Park Manor Estates and six other Schuett properties. Williams' financial condition deteriorated so much that it threatened to unilaterally sell its interests to the general public causing it to default the development's HAP contract, which met the Agency's criteria for preservation risk. Even though the remaining six properties are mostly in small markets, there are many benefits to preserving the properties from the proceeds of the Riverside Terrace and Park Manor Estates transactions. The six properties contain 347 project-based Section 8 units.

Target Population:
Riverside Terrace is a senior building that provides affordable housing to low income individuals and couples. Four units will be designated to serve households who have experienced long term homelessness.

Project Feasibility:
The owner and management company have maintained this property for 30 years; however, the building needs to be updated. Completion of the rehabilitation will help to ensure the development competes well in the marketplace for the long term.

Development Team Capacity:
All members of the development team have substantial experience in their chosen fields, and the development team appears to have the capacity to successfully own and manage this development. The developer, the Schuett Companies, Inc.'s ,most recent developments were the rehabilitations of Hillside Terrace, a 44 unit development in Long Lake; Westgate Apartments, a 100 unit development in Hibbing; and Red Pine Apartments, an 88 unit development in Bemidji.

Schuett Companies, Inc. has been the general partner of the ownership entity of this property for 31 years. Management staff at the Schuett Companies is knowledgeable and responsive. Developments are well maintained and good policies and practices are in place. Accurate asset management reports are submitted on time. The Schuett Companies currently has 26 developments managing a total of 1,718 units. Their portfolio consists of project based section 8 for the elderly/disabled/family and market rate developments. They currently have 13 Minnesota Housing first mortgages.

Physical and Technical Review:
Kaas-Wilson Architects and Frerichs Construction have the capacity to complete the development.

The 66 unit property is located near downtown Thief River Falls. The building was initially constructed in 1979. Proposed work includes tuck pointing; replacement of windows, appliances, cabinets, fixtures and all major building systems; improvements to corridors and common areas; and site work. Proposed renovation and acquisition costs appear reasonable. Developer proposes to comply with Mandatory MN Overlay to Green Communities.

The rehabilitation is estimated to be $42,152/unit (including a contingency), and the total development cost is at $110,004/unit, which is 22% below the predictive model estimate.

Market Feasibility:
The Thief River Falls housing market and population growth are stable. According to the as-is appraisal approved by Minnesota Housing in September 2011, the vacancy rate for comparable Section 8 and market rate properties in the market area is less than 1%.

Supportive Housing:
Inter County Community Council (ICCC) employs a housing first service model and will offer a variety of services on site at Riverside Terrace including case management, housing supports, benefit assistance, independent living skills and financial management/budget. The organization has experience serving the homeless population within its service area through various services and housing resources. The operating budget includes $8,500 for long-term homeless ("LTH") service coordination. The inclusion of this expense ensures that the LTH residents will have access to services for the long term.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$7,260,264		$110,004
Acquisition or Refinance Cost	$2,800,000		$42,424
Gross Construction Cost	$3,019,614		$45,752
Soft Costs (excluding Reserves)	$1,316,650		$19,949
Non-Mortgageable Costs (excluding Reserves)	$0		$0
Reserves	$124,000		$1,879
Total LMIR Mortgage (Including 4% DCE)	$2,135,841		$32,361
First Mortgage Loan-to-Cost Ratio		29%	
Agency Deferred Loan Sources			
Total Agency Sources	$0		$0
Total Loan-to-Cost Ratio			
Other Non-Agency Sources			
Syndication Proceeds	$5,203,528		$78,841
Total Non-Agency Sources	$5,203,528		$78,841

Board Agenda Item: 9.A.(2)
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Riverside Terrace
Sponsors:	Schuett Development, LLC
Guarantors:	John E. Schuett and the John E. Schuett Revocable Trust
Location of Development:	Thief River Falls
Number of Units:	66
General Contractor:	Frerichs Construction, Saint Paul
Architect:	Kaas-Wilson Architecture, Minneapolis
Amount of Development Cost:	$7,260,264
Amount of LMIR Mortgage:	$2,056,736

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such construction and permanent mortgage loans are not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $2,056,736; and

2. The Closing of the LMIR loan shall be on or before January 26, 2013 (which shall also be the LMIR Commitment Expiration Date); and

3. The interest rate on the permanent LMIR loan shall be 4.75 percent per annum plus 0.25 percent mortgage insurance premium with monthly payments based on a 30 year amortization; and

4. The term of the permanent LMIR loan shall be 30 years; and

5. Agency staff shall review and approve the Mortgagor; and

6. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

7. John E. Schuett and the John E. Schuett Revocable Trustees, shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved 1.15 debt service coverage (assuming stabilized expenses) for three successive month; and

8. John E. Schuett and the John E Schuett Revocable Trust, by its trustees, shall guarantee the mortgagor's payment obligation (other than principal and interest) under the LMIR Building Loan Agreement, LMIR Regulatory Agreement and LMIR Mortgage with the Agency; and

9. Monies may be released from the development's current liquid reserves to use in financing early start activities for the development provided: 1) such monies shall only be used for early start construction activities for the development as approved by Minnesota Housing staff; and 2) John E. Schuett shall enter into an agreement with Minnesota Housing ensuring the completion of the work to be paid by the reserves even if the loan does not close.

10. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 26th day of July 2012.

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CHAIRMAN

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AGENDA ITEM: 9.A.(3)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Northwood Commons, Baudette - D0110

CONTACT: Phil Hagelberger, 651-297-7219
phillip.hagelberger@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests approval to modify the terms of the previously approved asset management loan.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☐ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Background
- Resolution

The Minnesota Housing Board at its April 26, 2012 meeting approved an Asset Management loan funded from the Agency's FA/FAF general pool.

Use of these funds requires that the borrower agree to rent a percentage of the units to households whose annual incomes at initial occupancy does not exceed 50 percent of median income for the term of the Asset Management Loan.

The Resolution NO. MHFA 12-029 states incorrectly that 90 percent of the units be rented units to households whose annual incomes at initial occupancy does not exceed 50 percent of median income. The percentage of units is intended to reflect the percentage of FA/FAF pool funds provided in relation to the total development cost (TDC). The TDC for this proposal is $761,221; the FA/FAF pool funds committed is $245,286 or 32 percent of the TDC.

Agency staff recommends that the terms of the approved Asset Management loan be revised to reflect the above.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION MODIFYING LOAN TERMS
ASSET MANAGEMENT LOAN PROGRAM

WHEREAS, the Board has previously authorized the commitment for the multifamily rental housing development known as Northwood Commons in Baudette, Minnesota, Minnesota Housing Development 0110 (the Development) by its Resolution No. MHFA 12-029; and

WHEREAS, Agency staff proposes to modify the terms of the Asset Management loan by revising the percentage of units which must be rented to households whose annual incomes at initial occupancy do not exceed 50 percent of area median income from 90 percent to 32 percent.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby approves modifying the terms of the Asset Management loan as stated above.

Except for the revised percentage, all other terms and conditions of MHFA Resolution No. 12-029 remain in effect.

Adopted this 26th day of July, 2012.

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CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.A.(4)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Valleyview Commons, Mahnomen - D0719

CONTACT: Phil Hagelberger, 651-297-7219
phillip.hagelberger@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests approval to modify the terms of the previously approved asset management loan.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☐ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Background
- Resolution

The Minnesota Housing Board at its April 26, 2012 meeting approved an Asset Management loan funded from the Agency's FA/FAF general pool.

Use of these funds requires that the borrower agree to rent a percentage of the units to households whose annual incomes at initial occupancy does not exceed 50 percent of median income for the term of the Asset Management Loan.

The Resolution NO. MHFA 12-032 states incorrectly that 90 percent of the units be rented units to households whose annual incomes at initial occupancy does not exceed 50 percent of median income. The percentage of units is intended to reflect the percentage of FA/FAF pool funds provided in relation to the total development cost (TDC). The TDC for this proposal is $844,651; the FA/FAF pool funds committed is $309,719 or 37 percent of the TDC.

Agency staff recommends that the terms of the approved Asset Management loan be revised to reflect the above.

Board Agenda Item: 9.A.(4)
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION MODIFYING LOAN TERMS
ASSET MANAGEMENT LOAN PROGRAM

WHEREAS, the Board has previously authorized the commitment for the multifamily rental housing development known as Valleyview Commons in Mahnomen, Minnesota, Minnesota Housing Development 0719 (the Development) by its Resolution No. MHFA 12-032; and

WHEREAS, Agency staff proposes to modify the terms of the Asset Management loan by revising the percentage of units which must be rented to households whose annual incomes at initial occupancy do not exceed 50 percent of area median income from 90 percent to 37 percent.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby approves modifying the terms of the Asset Management loan as stated above.

Except for the revised percentage, all other terms and conditions of MHFA Resolution No. 12-032 remain in effect.

Adopted this 26th day of July, 2012.

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CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.B.(1)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: 2013-2015 Strategic Plan

CONTACT: Barb Sporlein, 651-297-3125 barb.sporlein@state.mn.us
John Patterson, 651-296-0763 john.patterson@state.mn.us

REQUEST:

☑ Approval ☑ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests approval of the final 2013-2015 Strategic Plan.

The 2013-2015 Strategic Plan defines the Agency's vision (ideal future state), mission (fundamental purpose – why we exist and what we do), values (shared beliefs among stakeholders), and priorities and strategies (goals and means to achieve them). The Strategic Plan will guide the development of the Agency's Affordable Housing Plan, as well as the annual divisional and individual work plans. The draft Plan was discussed by the Board at its June 21 meeting.

FISCAL IMPACT: While the 2013-2015 Strategic Plan itself will have no fiscal impact, it will guide the development of the Affordable Housing Plan, as well as other resource allocation decisions identified in the annual divisional and individual employee work plans.

MEETING CURRENT AGENCY PRIORITIES:

☑ Finance New Opportunities for Affordable Housing

☑ Mitigate Foreclosure Impact Through Prevention and Remediation

☑ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Prevent and End Long-term Homelessness

ATTACHMENT(S):

- Background
- 2013-2015 Strategic Plan

Agenda Item: 9.B.(1)
Attachment: Background

The draft 2013-2015 Strategic Plan was presented and discussed by the Board at its June 21 meeting. The Board was generally supportive and recommended minor revisions. The draft plan was made available via the web for public review and comment between June 21 and July 11. In addition, Minnesota Housing and the Minnesota Housing Partnership co-sponsored a Webinar with program partners on July 9.

Several comments were received. Many of the comments were generally supportive of the priorities and strategies, and offered recommendations on specific implementation actions and/or expressed interest in being involved in future implementation. Other comments focused on adding clarifying or stronger language as it related to specific priorities and strategies. Staff is not recommending significant changes. However, a number of revisions are being recommended, including:

- Adding clarifying language about the importance of helping to support local partners in their delivery of Agency programs;
- Adding clarifying language that this is a Strategic Planning document, not an exhaustive list of all the activities undertaken or roles played by the Agency;
- Adding a value relating to Inclusion;
- Switching the order of Priorities #1 and #2 for better document flow;
- Under the Priority "Promote and Support Successful Homeownership", adding clarifying language about serving low and moderate income households, and adding a Strategy specifically relating to the Agency's commitment to home improvement financing;
- Under the Priority "Prevent and End Homelessness", adding language about the key role that securing housing plays in addressing the needs of people experiencing homelessness;
- Under "Principles and Cross Cutting Priorities section, clarifying the Agency's commitment to ensuring fair and equal access to affordable housing in the principles relating to households facing barriers to housing success and to economic integration;
- Adding language to the Workforce Planning strategy articulating the Agency's commitment to maintaining a qualified and diverse workforce;
- Correcting typos and making minor language changes from the draft.

The attached final 2013-2015 Strategic Plan incorporates the above revisions.

Vision

Mission

Values

Priorities

Strategies

2013-2015 Strategic Plan

Minnesota Housing Finance Agency

Strategic Plan for 2013 to 2015

Minnesota Housing has completed a review of its priorities and operations and has prepared this strategic plan. The plan helps the Agency to articulate its mission and values as well as its principles and priorities, and to communicate these to its many external partners, stakeholders and employees.

Minnesota Housing is an organization driven by both its mission and its strategies. It is committed to building and maintaining the key elements that have sustained its work for more than 40 years – its people, its partners, its community support and its financial strength. In pursuing its mission and strategies, Minnesota Housing will:

- be clear about its strategic priorities for meeting housing needs;
- preserve its financial strength in order to fund those needs, sustain its ability to meet the needs well into the future, and support local partners to deliver Agency programs;
- be proactive with its customers, stakeholders and delivery partners as priorities are implemented and as market conditions change;
- develop and maintain a strong organizational infrastructure where an outstanding and diverse workforce uses effective work processes supported by technology to deliver its programs; and
- provide leadership, working with customers and stakeholders, to articulate future housing needs, develop solutions for those needs and secure the resources to implement the solutions.

Minnesota Housing will measure its progress in pursuing its mission and strategies through an overall system of strategy management and results reporting. This strategic plan will serve as a framework for developing the Agency's annual business plans (Affordable Housing Plans), budgets and operating plans. As a framework, the strategic plan identifies key strategic priorities, but is not intended to provide an exhaustive list of the Agency's activities for the next three years.

Vision

All Minnesotans live in quality affordable housing in strong communities.

Mission

Minnesota Housing finances affordable housing for low- and moderate-income households while fostering strong communities.

Values

Integrity
We are honest and ethical.

Accountability
We use resources wisely; we take responsibility; we are transparent.

Collaboration
We work in partnership; we leverage resources.

Innovation
We pursue continuous improvement; we are creative problem solvers.

Inclusion
We ensure fair and equal access to affordable housing.

Impact
We improve lives; we strengthen communities.

The Work of Minnesota Housing

For 40 years, Minnesota Housing has worked to provide access to safe, decent and affordable housing and to build stronger communities across the state. It has a national reputation as one of the finest housing finance agencies in the country and has built an enduring alliance among partners in the for-profit, non-profit and government sectors to achieve its mission.

Minnesota Housing offers products and services to help Minnesotans buy and fix up their homes and to stabilize neighborhoods, communities and families. It also supports the development and preservation of affordable rental housing through both financing and long term asset management. It has pioneered a successful model for supportive housing that helps stabilize the lives of some of the state's most vulnerable citizens.

In providing these products and services in 2011, Minnesota Housing served more than 70,000 households, deploying nearly $727 million in financing.

Minnesota Housing Strategic Priorities

- ***Promote and support successful homeownership***
- ***Preserve federally-subsidized rental housing***
- ***Address specific and critical needs in rental housing markets***
- ***Prevent and end homelessness***
- ***Prevent foreclosures and support community recovery***

PRIORITY: Promote and support successful homeownership

Successful homeownership is critical not only to the long-term prosperity of homeowners and communities but also to the Agency itself. Revenues generated from mortgage lending activities fund the Agency's operations and Pool 3/Foundation, which provides grants and deferred loans for programs across the Agency. The financial crises of the last several years have highlighted the need for promoting and supporting successful homeownership. Minnesota Housing's model for successful homeownership for low- and moderate-income households has three primary components: (1) comprehensive homebuyer/homeowner support, including outreach, education, and counseling; (2) affordable and accessible homebuyer financing, including first mortgages and entry cost assistance; and (3) affordable and accessible financing to maintain the housing stock and homeownership over the long term through home improvement and rehabilitation programs.

Strategies

Support innovation, improvement, and expansion of homebuyer/homeowner education, counseling, and support.

To make informed and forward-looking decisions, homebuyers and homeowners need to fully understand what it means to buy and maintain a home. As the foreclosure and housing crisis has highlighted, it is important for Minnesota Housing and its partners to continue and improve its homebuyer/homeowner education activities. For example, with support from Minnesota Housing, the Homeownership Center launched an online homebuyer education program (Framework) in 2012 to better serve homebuyers across the state, particularly those in rural communities with limited access to in-person classes.

Continue to improve and adapt loan products and systems to ensure that they are attractive and easy to use in a changing market.

Ongoing uncertainty and changes in the financial and housing markets require that Minnesota Housing be flexible, nimble, and responsive in providing attractive and affordable loan products for low- and moderate-income households. In 2010, the Agency switched from a whole-loan to a mortgage-backed-securities model for holding its first mortgages. In 2012, the Agency redesigned and simplified its portfolio of homeownership and home improvement loan products to make them more attractive in the current market. At the outset of this Strategic Plan, other changes being considered include selling mortgages on the secondary market and offering Mortgage Credit Certificates (income tax credits for homeowners for a portion of the mortgage interest they pay). When the Agency investigates changes and new products, key criteria will include: mission relevance, homeowner success, and profitability.

Prudently use down-payment and closing-cost assistance to serve borrowers and to support loan production without putting borrowers at unnecessary risk.

Down-payment and closing-cost assistance programs help low- and moderate-income households overcome wealth barriers to homeownership. While these potential homebuyers have the financial capacity to make monthly mortgage payments, they often lack the cash to cover the down-payment and closing costs associated with a mortgage. To create and support successful homeownership, Minnesota Housing needs to balance helping people overcome homeownership barriers with minimizing the risk of failure. For example, in 2012, Minnesota Housing provides down-payment and closing-cost assistance, but also requires borrowers to contribute at least $1,000 of their own funds and have a credit score of at least 620. To create and support success, the Agency will continuously monitor the loan performance of borrowers receiving assistance and make program changes if needed.

Ensure sufficient resources and tools to maintain and improve existing affordable homes.

Successful homeownership involves not only making mortgage payments but also maintaining the physical condition of the home as a safe and decent place to live. Minnesota Housing's home improvement and rehabilitation tools must meet the needs of low- and moderate-income homeowners, especially as Minnesota's housing stock gets older.

Expand the pool of lenders and other delivery partners and improve the services provided to these partners.

Minnesota Housing relies on partners to deliver its financial products. While the Agency has a strong network of lenders, real estate agents, counselors, and other partners around the state, expanding this network will increase borrower access to programs, particularly in Greater Minnesota. The Agency will attract and retain quality partners by reaching out and promoting its products and by providing high-quality services to these partners, including a state-of-the-art, user-friendly loan commitment system.

PRIORITY: Preserve federally-subsidized rental housing

Minnesota has nearly 40,000 housing units with federal project-based rental assistance – including about 31,000 Section 8 project-based units and nearly 7,000 USDA Section 515 units. Many of these units are at-risk of opting out of the program in the near future. For example, based on a preliminary analysis, Minnesota Housing staff estimates that roughly 30% of the Section 8 units are at-risk of opting out in the next five years. In addition, many properties have capital improvement needs and limited reserve funds to pay for them. Consequently, Minnesota Housing and its partners need to proactively manage the portfolio of properties with project-based rental assistance and prioritize which properties to preserve with the limited resources that are available.

Strategies

Strengthen the understanding of federally-subsidized rental properties.
To most effectively prioritize and preserve properties, Minnesota Housing and its partners must develop a strong understanding of each property, including the location, physical and financial condition, unit and tenant characteristics, owner and management capacity, and local market/community conditions.

Refine risk assessments and preservation priorities.
The Agency and its partners will refine the criteria and process for determining which properties are the highest priorities for preservation. Priorities could include: properties at the greatest risk of opting out of the programs, those with the most immediate and greatest need for rehabilitation, those housing tenants with the greatest needs and/or the fewest alternatives, or those having the greatest community impact. Balancing each of these factors and others will be challenging. One particular challenge will be preserving the properties most at-risk while also incenting responsible owners and managers to continue their good work. In addition, Minnesota Housing will be transparent and communicate its priority criteria to developers, partners, and stakeholders. This will allow for planning in accordance with Agency policy.

Streamline and improve the preservation process through simplification, improvements to programs and incentives, education, and technical assistance.
The preservation process needs to be improved and streamlined to enhance the likelihood that units will be preserved. Preservation can be a very technical process, especially when a property is transferred from one owner to another. For example, given market uncertainty and differing expectations, buyers and sellers can have difficulty agreeing on a fair sale price. In addition, program processes and requirements for contract renewals and rehabilitation funding can be complex and burdensome.

Emphasize long-term viability of preserved properties – financial, operational, and physical condition. While some properties may need an infusion of funds only to address an immediate preservation issue, Minnesota Housing needs to focus on the long-term viability of preserved properties. The Agency's actions should address a property's underlying preservation issues and not be a temporary fix. Furthermore, to ensure long-term viability, the Agency will continue to closely monitor the physical, operational, and financial health of properties in its investment portfolio and effectively manage Section 8 contracts for the Department Housing and Urban Development (HUD).

PRIORITY: Address specific and critical needs in rental housing markets

Analyses from Minnesota Housing's Community Profiles and insights from partners provided during the Agency's 2012 Regional Housing Dialogues identified several rental housing needs that occur in specific communities, but not necessarily statewide. Some of the identified needs included: (1) shortages due to very low vacancy rates; (2) workforce housing in areas with increasing employment; (3) multiple bedroom apartments for larger families, particularly in communities with a growing immigrant population; (4) housing for seniors in aging communities; and (5) affordable market-rate housing that does not meeting housing quality standards. Under this priority, Minnesota Housing seeks to increase the supply of rental housing in targeted communities and maximize the affordable access to market-rate rental housing. To meet the intent of this priority, the rental housing need must be substantiated by compelling data and market analyses.

Strategies

Use data and rigorous analyses to identify specific and critical needs in local housing markets.
The Agency will continue to work with its partners to identify and assess rental housing needs and gaps in communities across the state. The Agency will provide data and tools, such as the Community Profiles, and information about the state's affordable rental housing stock. To improve analyses, Minnesota Housing will enhance the rental market data in its Community Profiles. Local partners will substantiate their needs using data and information from the Agency and the local community.

Refine Minnesota Housing's programs and policies to better enable partners to meet specific needs.
To be effective, Minnesota Housing's program and policies need to provide partners an incentive to take action and not create unintentional barriers. For example, in 2010 Minnesota Housing revamped its Rental Rehabilitation Deferred Loan program to make it easier to use and to encourage property owners in rural areas to rehabilitate their properties. Over the next several years, Minnesota Housing will review and potentially revise its programs to support the housing needs of low- and moderate-income seniors in communities where it is needed. As another example, Minnesota Housing will examine ways to combine its amortizing loan program – the Low and Moderate Income Rental (LMIR) Program – with a shallow subsidy (minimal gap financing) to encourage the construction of workforce and mixed-income housing.

Pursue additional funding sources and financing options to meet specific and critical needs.
Additional options could include such things as seeking financial support from employers for workforce housing, securitizing and selling Minnesota Housing multifamily loans to improve liquidity, and evaluating participation in HUD's proposed new Risk Share program for smaller multifamily properties.

Contain upfront development costs while minimizing the long-term costs of operating and maintaining rental property.
In an era of limited resources and public scrutiny of government spending, Minnesota Housing needs to promote cost efficiency for the properties it finances. However, using cheaper materials and inefficient systems can actually increase the costs of a property over its lifetime because of repairs, replacements, and inefficiencies. Minnesota Housing will seek to balance both of these important principles as it establishes its programs and policies.

PRIORITY: Prevent and end homelessness

Minnesota's homeless population includes some of state's most vulnerable people – the unemployed or under-employed, people facing medical emergencies and large health care bills, people who have lost their homes to foreclosure, and people with mental health and/or chemical dependency issues. Unfortunately, with the country's economic struggles, homelessness has gotten worse. According to Wilder Research's homeless survey, the number of homeless in Minnesota on a given night increased from 9,200 in 2006 to 13,100 in 2009. If Minnesota Housing is to achieve its vision – "All Minnesotans live in quality affordable housing in strong communities" – it must play a key role in preventing and ending homelessness.

Strategies

Play a leadership role in developing and implementing a comprehensive and multi-organizational approach to ending homelessness.
With the anticipated successful completion of the 4,000 housing opportunities under the Business Plan to End Long-Term Homelessness by 2015, Minnesota Housing needs to work with its partners (including Heading Home Minnesota, other state agencies, and the private sector) to ensure that efforts to end homelessness receive sufficient focus and resources going forward. Because the causes of homelessness are represented in multiple areas of life – including housing, social services, job training, employment, education, corrections, and many others – the state must broaden and improve its comprehensive effort. It must include not only multiple government agencies but also the private sector and individual citizens.

Improve and refine the state's understanding of the homeless population and of program effectiveness.
With Wilder Research's homeless survey and data from the Homeless Management Information System (HMIS), the state already has a good understanding of homelessness and program operations, but further improvements will increase the effectiveness of these programs. Funders and program administrators have said they need real-time information at their fingertips about their clients and how well they are being served. In addition, program administrators need effective tools for assessing their clients' needs and determining which programs, housing options, and/or services will most effectively serve them.

Address homelessness issues at the outset, ideally before a person becomes homeless.
In an effort to end homelessness, it is best, and usually most cost effective, to prevent it before it happens. This may involve everything from providing a family with temporary assistance for a one-time financial emergency, as Minnesota Housing does through the Family Homelessness Prevention and Assistance Program, to improving discharge programs for prisons, psychiatric facilities, and foster care.

Increase access to a comprehensive continuum of housing and service options across the state that will vary depending on the needs of the household.
To be most effective, each individual and family who is homeless or at-risk of becoming homeless should receive the right type of assistance to meet their needs for the right period of time and in the right setting. The assistance should be tailored to the individual's or family's needs, which will likely vary over time. Tailored assessments are likely to simultaneously result in better meeting the needs of the clients and in using scarce resources more efficiently. This requires ongoing assessments and coordinated funding and service models. In addition, to ensure access across the state, Minnesota Housing needs to work with its partners to increase the supply of housing and service options where they are limited.

Lead the Interagency Council on Homelessness.
A number of state agencies serve persons experiencing homelessness. The solutions to ending homelessness do not reside with one activity or one government agency. Cross–agency coordination of resources and programs is even more important as resources contract. The Agency will take leadership in reinvigorating the Interagency Council on Homelessness to raise the profile of the issue and to expedite decision-making, improve coordination and ensure consistent policies among state agencies serving persons experiencing homelessness. Minnesota Housing's leadership is critical to the success of the state's homelessness efforts. Without stable and affordable housing in place, individuals and families who are homeless cannot successfully tackle their other needs.


Photo by Scott Streble

PRIORITY: Prevent foreclosures and support community recovery

Even with recent improvements, the foreclosure crisis is far from over. In 2011, there were over 21,000 sheriff sales, which is three times the number in 2005. The statewide delinquency rate is still above 5 percent, when the historical norm is 1 to 2 percent. Furthermore, it may take years for communities and individuals adversely affected by the foreclosure and housing crisis to recover, and some communities have a large number of vacant and substandard housing units. For example, home prices in communities like North Minneapolis are 75 percent below their historical highs. According to CoreLogic, 18.4% of Minnesota homeowners with a mortgage have no equity in their homes.

Strategies

Prevent future foreclosures.

According to research, foreclosure counseling only costs about $400 per household, but each foreclosure costs homeowners, neighboring households, lenders, loan servicers, and local governments up to $80,000. Consequently, Minnesota Housing will continue to fund foreclosure counseling and pursue other effective and viable prevention efforts.

Support and encourage comprehensive community recovery initiatives that are integrated with broader community development goals.

Community recovery from the foreclosure crisis is more than a housing recovery. To make a community that was destabilized a desirable place to live again, it needs job opportunities, good schools, safe neighborhoods, access to public transportation, and places to shop and participate in community activities. Minnesota Housing initiatives need to be well integrated with these other recovery efforts.

Use data and analyses to identify community recovery needs across the state and target resources where they will have the greatest impact.

Recovery efforts need to be targeted to communities where they will have the greatest impact because there are insufficient resources to serve all communities needing assistance. Minnesota Housing will continue to allocate community recovery resources in a targeted manner.

Support community recovery efforts by serving homebuyers and homeowners adversely affected by the foreclosure and housing crises.

When appropriate and when risks are minimized, Minnesota Housing will provide alternative financing options for homebuyers and homeowners not currently served by conventional lending markets, including contracts for deed, and unsecured home improvement loans. Minnesota Housing will also continue to support community programs designed to address the substantial rehabilitation of substandard properties that is often needed to attract new owners to a community.

Principles and Cross-Cutting Priorities

As the Agency implements its strategies and carries out its mission, it will consider certain overarching principles and cross-cutting priorities when evaluating proposed projects and activities:

- ***Is the activity a reflection of the Agency's mission and based on sound financial principles?***
- ***Does the activity use the Agency's resources to attract additional financial resources?***
- ***Does the activity achieve multiple policy objectives?***
- ***Is the activity consistent and coordinated with policies, goals, and activities of other relevant state and federal agencies?***
- ***How does the activity support low- and moderate-income Minnesotans facing barriers to housing success?***
  Under state law, Minnesota Housing is charged with serving people not adequately served by the private sector. Households of color especially face barriers to obtaining stable and affordable housing, in part because of significant disparities in income and employment rates when compared to white households. The Agency seeks to overcome the impact of these disparities through outreach to underserved households, monitoring tenant characteristics and researching any complaints of unfair treatment.
- ***How does the activity support the state's aging population?***
  As the baby boom generation retires, serving the state's aging low- and moderate-income households will be an important perspective in policy and investment decisions.
- ***How does the activity support economic integration?***
  Minnesota Housing supports the principle that low- and moderate-income families should have access to affordable housing opportunities throughout the state, including higher-income communities.
- ***How does the activity promote location efficiency?***
  Housing and transportation are closely linked. Where you live plays a key role in how far you need to travel on a daily basis and affects your transportation costs. Since housing affordability is really a combination of housing plus transportation costs, the Agency will consider location efficiency in its investment decisions.
- ***How does the activity incorporate green/sustainable housing concepts?***
  Most of the Agency's programs already have green or sustainable housing requirements, but the Agency will continue to assess and refine these requirements to ensure that it invests in efficient and healthy housing.
- ***How does the activity complement local community (re)development efforts?***
  Housing is not developed in isolation. It is built or rehabilitated in a larger community context. It is the Agency's mission to foster strong communities while providing its financial resources for housing.
- ***How does the activity adapt to regional differences in housing needs?***
  The conditions of the housing stock, vacancy rates, income levels, business climate, and household demographics are not uniform throughout the state, resulting in differing regional housing needs. As a statewide organization, the Agency must have flexible enough programs and processes to be responsive to regional differences while promoting its mission and statewide priorities and principles.

Strengthening the Organizational Capacity of Minnesota Housing

Having a strong organizational capacity is fundamental to the Agency's ability to implement effective strategies and fulfill its mission. To accomplish this, the Agency will emphasize the following:

- ***Develop and maintain an outstanding workforce.***
  - **Workforce planning.** Identify the types of positions and competencies the Agency needs for the markets in which it works and the business models it engages; recruit and select a qualified and diverse workforce; and plan for anticipated retirement and turnover.
  - **Professional development.** Refine and implement a comprehensive professional development program, including needs assessments, resource guides, content delivery, tuition reimbursement, and career coaching; continue to refine and implement the Agency's performance management system.
- ***Manage risks effectively to preserve financial strength.***
  Refine and implement the Agency's risk management framework.
- ***Develop effective work processes supported by technology.***
  Implement the Business Technology Roadmap (Faster Future by 2014) designed to improve work-flow, data integration, communication, and customer service.

The Minnesota Housing 2013–2015 Strategic Plan was adopted by the Minnesota Housing Board of Directors on July 26, 2012.

Minnesota Housing Board of Directors
Ken Johnson, Chair
Joe Johnson, Vice Chair
Gloria Bostrom
John DeCramer
Steve Johnson
Stephanie Klinzing
Rebecca Otto, State Auditor

Mary Tingerthal, Commissioner

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Contact Minnesota Housing to learn more about housing assistance programs, how to apply for assistance, or how to participate in Minnesota Housing programs as an administrator or partner.

EQUAL HOUSING OPPORTUNITY

Minnesota Housing Finance Agency

AGENDA ITEM: 9.B.(2)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Homeownership Finance Bonds, 2012 Series A (Mortgage Backed Securities Program)

CONTACT: Don Wyszynski, 651-296-8207
don.wyszynski@state.mn.us

Joe Gonnella, 651-296-2293
joe.gonnella@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Bond Transaction

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:

Agency staff is preparing to issue bonds to provide financing for mortgage loans purchased under its single family first-mortgage programs. Kutak Rock, LLP, the Agency's bond counsel, will send the series resolution and draft Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of the bond issue on a not-to-exceed basis.

FISCAL IMPACT:

RBC Capital Markets, the Agency's lead investment banker, has identified one or more non-traditional investors who are willing to purchase Minnesota Housing bonds structured as a monthly pass-through of the principal received on MBS securities financed with the bond proceeds. The interest rate these investors are willing to accept is substantially lower than rates available from traditional buyers of tax-exempt housing bonds, and consequently the transaction will utilize only a small amount of the Agency's accumulated excess spread to allow the Agency to earn the maximum allowable spread under Federal tax law.

MEETING AGENCY PRIORITIES:

☑ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☐ Prevent and End Long-term Homelessness

ATTACHMENT(S):

None.

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.C.(1)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Mortgage Loan Program Procedural Manual Change

CONTACT: Kim Stuart, 651-296-9959
kim.stuart@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests changes to the Mortgage Loan Program Procedural Manual, MBS that incorporate the homeownership program changes approved by Board in April 2012. The primary Procedural Manual changes include elimination of the Community Activity Set Aside (CASA) Program, addition of an Amortizing Entry Cost Assistance Program, and shift to a bipartite agreement with participating lenders. It is anticipated that the changes herein will take effect on or about October 1, 2012.

FISCAL IMPACT:
The Procedural Manual implements policies and procedures for the program, which is budgeted through the Affordable Housing Plan. Thus, there is no fiscal impact.

MEETING AGENCY PRIORITIES:

☑ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☐ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Background
- Draft program manual

BACKGROUND:
At the April 2012 Board meeting, staff brought recommendations for changes to Minnesota Housing's home mortgage and entry cost assistance (ECA) programs. Primary changes relating to current program offerings involve simplifying mortgage revenue bond first mortgage programs to one program and adding an amortizing ECA option. Mortgage Loan Program Procedural Manual, MBS changes incorporate the recommendations approved by the Board.

As part of overall Procedural Manual process revisions, Minnesota Housing will shift from using a single tri-party Participation Agreement to a process of two agreements – one between the lender and Minnesota Housing, and the other between the lender and US Bank. Many Procedural Manual changes involve references from the former Participation Agreement. Also, given the need for product pricing flexibility and the need to respond quickly to market changes, program commitment period terms will no longer be provided in the Procedural Manual, but rather in an appendix to the Procedural Manual.

Please note that the proposed program changes will not be effective until on or about October 1, 2012. The final date will be determined upon completion of all internal systems changes necessary to support implementation.

Mortgage Loan Program Procedural Manual: MBS

~~May 29, 2012~~October 1, 2012

Introduction

Mission Statement

Minnesota Housing finances and advances housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

Background

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

Minnesota Housing offers programs funded with mortgage revenue bonds ("MRB") to finance the purchase of new and existing homes by low and moderate income Borrowers. Under the Mortgage Backed Securities ("MBS") MRB Program, the Master Servicer purchases closed loans originated by private lenders under prescribed program requirements.

Minnesota Housing also provides financial assistance to potential Borrowers who need entry cost assistance to make homeownership possible.

Procedural Manual

This Procedural Manual sets forth for lenders the terms and conditions under which the Master Servicer will purchase mortgages under Minnesota Housing's MBS MRB and ~~Homeownership Assistance Fund~~[Homeownership Assistance Fund] ~~("HAF~~[HAF]~~")~~entry cost assistance programs.

Mortgage Revenue Bond Programs

~~Minnesota Mortgage Program~~[Minnesota Mortgage Program] ("~~MMP~~[MMP]")

Low interest First-Time Homebuyer loans offered throughout Minnesota to low and moderate income Borrowers through local participating lenders.

~~**Community Activity Set Aside Program ("CASA")**~~

~~**Low interest First-Time Homebuyer loans available throughout Minnesota under special targeted initiatives with specific participating lenders.**~~

Entry Cost Assistance Programs

~~Homeownership Assistance Fund~~[Homeownership Assistance Fund]: (See Chapter 5)

~~Homeownership Assistance Fund~~[Homeownership Assistance Fund] (~~HAF~~[HAF]) Entry Cost Assistance provides interest free deferred loans to assist Borrowers with down payment and/or closing costs.

Amortizing Entry Cost Assistance (See Chapter 5)

Amortizing Entry Cost Assistance provides loans with an interest rate equal to the first mortgage to assist Borrowers with down payment and-/-or closing costs.

HOME Homeowner Entry Loan Program (see HOME HELP~~elp~~ Manual):

~~HAF~~[HAF] ~~Entry Cost Assistance provides funds to assist Borrowers with down payment and/or closing costs.~~

~~Interest free deferred loans.~~

~~Home Homeowner Entry Loan Program (HOME Help): (see separate HOME Help Manual)~~

~~•~~ HOME Homeowner Entry Loan Program (HOME HELP) uses federal HOME dollars to bridge affordability gaps and promote successful homeownership by providing down payment and-/-or closing cost assistance to eligible Borrowers.~~Interest free deferred loans to bridge affordability gaps and promote successful homeownership by providing down payment and closing cost assistance to eligible:~~

~~◊ Participating CASA initiative Borrowers.~~

Chapter 1 – Lender Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing Single Family Mortgage Backed Securities Mortgage Revenue Bond Programs, as amended or supplemented (hereinafter referred to as the Participation Agreement) for Minnesota Housing mortgage programs executed between the Lender, the Master Servicer and Minnesota Housing. It is incorporated into such Participation Agreement by reference and is a part thereof as fully as if set forth in such Participation Agreement at length.

Minnesota Housing reserves the right to:

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

1.02 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 shall promptly report such discovery to Minnesota Housing and the Master Servicer.
- Minnesota Housing, or the Master Servicer, 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 and/or the Borrower. This includes repayment of loan funds, together with all applicable administrative costs and other fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery thereof.

1.03 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 or Minnesota Tax Identification 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.

1.04 Unauthorized Compensation

Lender may receive fees approved in this Procedural Manual. However, Lender shall not receive or demand from realtor/builder/Property Seller/Borrower:

- Kickbacks;
- Commissions; or
- Other compensation.

1.05 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 the Master Servicer. A loan file may be requested to be made available or forwarded to Minnesota Housing for review. ~~A loan file may be requested to be made available to Minnesota Housing at the Lender's Minnesota office during regular business hours or a copy forwarded to Minnesota Housing for review.~~ Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by the Master Servicer.

Audited loans are reviewed for:

- Mortgage revenue bond law compliance;
- Minnesota Housing program/policy compliance;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the program in part or in whole.

1.06—_Termination of Lender Participation

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

- This Procedural Manual;
- The Participation Agreement;
- The Master Servicer's Lender Guide;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Borrower's rights with regard to obtaining financing for homeownership; and
- Other applicable state and federal laws, rules and regulations.

Upon termination of a Lender's contract the Master Servicer will continue to purchase eligible loans for which a commitment has been issued, until the commitment expiration date.

- Minnesota Housing will not refund participation fees to the Lender.
- Minnesota Housing may, at its option, impose remedies other than termination of the contract for Lender nonperformance.
- Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender shall be at Minnesota Housing's and/or the Master Servicer's sole discretion.

1.07 Covenants

The Lender agrees to comply with 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 thereunder):

- 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;
- Section 527 of the National Housing Act;
- Equal Credit Opportunity Act;
- Fair Credit Reporting Act;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A;

- Data Privacy - Minnesota Statutes Chapter 13 and Section 462A.065;
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Americans with Disabilities Act;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth In Lending Act;
- Home Mortgage Disclosure Act
- Anti Predatory Lending Act;
- USA Patriot Act
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement and Procedures Act of 1974.

In addition to the above-listed covenants, Lender will have examined:

- The Borrower's federal income tax returns or other appropriate documentation and warrants that the Borrower has not had an ownership interest in a Principal Residence during the three years previous to the date of the mortgage;
- The Property Seller Affidavit and has determined the facts stated therein are true and correct; and
- The Borrower Affidavit and has determined the facts stated therein are true and correct.
- The Lender also agrees that the person who confirms on HDS SF Web Application the Lender Representations and Warranties on behalf of the Lender is fully conversant with the Master Servicer's requirements, Minnesota Housing program requirements, the underlying loan product and insurer/guarantor requirements and has the authority to legally bind the Lender; and Lender has complied with all terms, conditions and requirements of the Participation Agreement and this Procedural Manual and the Master Servicer's Lender Guide unless those terms, conditions and requirements have been specifically waived by Minnesota Housing or the Master Servicer, as applicable, in writing.

1.08 Lender Compensation

Lender is compensated for each loan purchased by the Master Servicer as follows:

- Origination fee collected from the Borrower in accordance with RESPA;
- Service release premium of 1% of the purchase price paid by the Master Servicer.

1.09 Annual Renewal Requirements and Fees

- Annual renewal fee of $500.
- Minnesota Housing may adjust the annual renewal fees at any time at its discretion.
- Lender must meet the minimum loan volume requirements as specified by Minnesota Housing~~.~~ o~~O~~r by the Master Servicer, whichever is greater.
- Lender must be approved by both Minnesota Housing and ~~US Bank MRBP~~the Master Servicer to originate Minnesota Housing loans.

Chapter 2 - Borrower Eligibility

2.01 Borrower

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

2.02 Borrower Age

Borrower must be 18 years of age or older or have been declared emancipated by a court having jurisdiction.

2.03 Co-Signers

Non-occupant co-signers are not allowed on first mortgage loans. All Borrowers must occupy the property as their primary residence.

2.04 Unauthorized Compensation

Borrower shall not receive kickbacks, rebates, discounts, and/or compensation from any subcontractor, realtor or Property Seller.

2.05 Prior Homeownership - Three-Year Requirement

A Borrower may not have had an ownership interest in a Principal Residence at any time during the three year period ending on the date of execution of the mortgage. This requirement applies to any person who will execute the note, and will have a present ownership interest in the property being financed.

- Present ownership interest includes:
  - ◊ A fee simple interest;
  - ◊ An individual tenancy, joint tenancy, a tenancy in common, or a tenancy by the entirety;
  - ◊ The interest of a tenant shareholder in a cooperative;
  - ◊ A life estate;
  - ◊ A leasehold estate or a leasehold estate subject to a Community Land Trust;
  - ◊ A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;

◊ An interest held in trust for the Borrower (whether or not created by the Borrower) that would constitute a present ownership interest if held directly by the Borrower;

◊ Vendee interest in a contract for deed; or

◊ An ownership interest in a mobile home that is taxed as real estate.

- Interests that do not constitute a present ownership interest include:

◊ Remaindermen interest;

◊ An ordinary lease with or without an option to purchase;

◊ A mere expectancy to inherit an interest in a Principal Residence;

◊ The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;

◊ An interest in a non-Principal Residence during the previous three years (e.g., a recreational or~~/~~ seasonal home)~~An interest in other than a Principal Residence during the previous three years (e.g. recreational/seasonal home)~~; or

◊ An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property

◊ Pre-existing interest in the subject property.

- Required Documentation - Tax Returns:

◊ To verify that the Borrower meets the three-year requirement, the Lender must obtain copies of signed federal income tax returns filed by the Borrower for the three years immediately preceding execution of the mortgage documents (loan closing). The Lender should examine the tax returns and the credit report for any evidence that the Borrower may have owned a P~~p~~rincipal R~~r~~esidence during the past three years. The Lender should examine the tax returns and the credit report for any evidence that the Borrower may have claimed deductions for property taxes or mortgage interest deductions on a Principal Residence~~primary residence~~. The Borrower may also provide the Lender with an affidavit that he/she was not required to file an Income Tax Return during one or all of the preceding 3 years. See Chapter 7 – Documentation Requirements for acceptable alternative formats of federal income tax returns.

- Special Documentation for Current Ownership:

◊ A Borrower with a current ownership interest in a residence within the most recent three year period must be able to provide evidence (e.g. copy of rental agreement/lease) showing that they have not lived in the dwelling during the most recent three year period.

2.06 Principal Residence / Occupancy Requirement

Borrower must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan. A certification of the owner occupancy is to be made by the Borrower in the Borrower Affidavit.

2.07 Homebuyer Education

Qualified Homebuyer Education[1] **must be delivered in a classroom setting**, **must be completed prior to closing** and is required for borrowers securing Minnesota Housing financing under the following:

~~CASA Program~~

- Fannie Mae HFA Preferred (Conventional);
- Fannie Mae HFA Preferred Risk Sharing™ (Conventional); and
- Borrowers receiving funds for down payment or closing cost assistance through a loan under ~~HAF~~[HAF], the ~~Amortizing Loan Program~~[Amortizing Loan Program] or HOME HELP.

The above noted requirement will be satisfied when at least one borrower per household provides a certificate of completion.

2.08 Credit Score

~~If ~~T~~t~~he Borrower's credit score ~~(score Lender's underwriter uses to underwrite the loan) is less than~~ must be at least 620~~,~~ . ~~the Lender must identify appropriate compensating factors.~~

2.09 Minnesota Housing Program Eligibility Income

Gross annual household income is the gross annual projected household income as of the date of the mortgage application of all persons residing or intending to reside in a property from whatever source derived (with the exception of incidental income from after school employment of persons under 18 years of age) and before taxes or withholdings.

[1] Available courses are listed on the Homeownership Center website at: http://www.hocmn.org

The Minnesota Housing maximum gross household income cannot exceed the amounts listed on Minnesota Housing’s Website.

Gross annual projected household income includes but is not limited to:

- Salary, commissions, overtime, shift differential, bonuses, tips, earnings from part-time employment;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation and sick pay;
- Net rental income (including contract-for-deed income), income received from business activities or investments;
- Alimony, child support; ~~and~~
- Estate or trust income~~.~~; and
- Transfer payments such as social security, disability, unemployment insurance, workers’ compensation, veteran’s benefits, pensions and other government/public assistance.

Non-borrowing Occupant:

The income of all occupants must be verified and considered for the purposes of determining whether the Minnesota Housing maximum income limits have been exceeded even if a non-borrowing occupant's income is not considered for credit underwriting purposes.

2.10 Loans to Employees and Affiliated Parties

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

Chapter 3 - Property Eligibility

3.01 Eligible Properties

Properties eligible for a loan under the ~~Minnesota Mortgage Program~~[Minnesota Mortgage 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");
- An eligible unit of a condominium;
- A duplex (the borrower must occupy one unit of a duplex property AND the duplex property must have been a residence for at least five years prior to the date of the new mortgage, i.e. not new construction or recently converted from non-residential use);
- A manufactured home permanently affixed to a foundation and taxed as real property, financed with a government insured/guaranteed loan, and that meets the requirements outlined in Section 3.02 of this procedural manual; or,
- A modular home built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing types, subject to loan product guidelines and the approval of the mortgage insurer/guarantor.

3.02 Manufactured/Mobile Homes

Homes built to Federal Manufactured Home Construction Safety Standards, administered by HUD. The homes are built on wheeled chassis, which remain a basic structural element.

- Manufactured/Mobile homes are acceptable only for government insured/guaranteed loan products if they meet the following requirements:
  - ◊ Foundation: Permanently attached and anchored per manufacturer specifications to a basement, slab or footings to frost line;
  - ◊ Wheels, axles and trailer hitches must be removed;
  - ◊ Units must be assessed as real estate for property tax purposes; and,
  - ◊ Units must meet the requirements of the underlying loan product and the applicable insurer/guarantor.

3.03 Ineligible Properties

Properties not eligible for financing are as follows:

- A unit in a Cooperative Corporation or a limited equity Cooperative Corporation;
- Recreational/seasonal home;
- Single-wide mobile/manufactured home even if permanently affixed to a foundation and taxed as real property;
- A property intended to be used as an investment property (except the rental of a second unit in a duplex);
- A newly constructed duplex or a duplex converted from nonresidential use in the past five years;
- A property where 15% or more of the total area of the property is used primarily in a trade or business in a manner which would permit the Borrower to take a deduction for any portion of the costs of the property for expenses incurred in connection with such trade or business use of the property on the Borrower's federal income tax return.~~A property where 15% or more of the total area of the property is used primarily in a trade or business in a manner which would permit the Borrower to take a deduction for any portion of the costs of the property for expenses incurred in connection with such trade or business use of the property on the Borrower's federal income tax return. For home day care, less than 15% of the property is used regularly and exclusively for the business~~;
- Manufactured/Mobile homes financed with Fannie Mae HFA Preferred (conventional) loan product; or,
- Newly constructed residences with private septic systems located within Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright Counties.

3.04 Acquisition Cost Limit

Acquisition Cost is the cost of acquiring an eligible property from the Property Seller as a completed residential unit. The Acquisition Cost of a property may not exceed the amounts listed on Minnesota Housing's Website.

Acquisition Cost includes:

- All amounts paid either in cash or in kind, by the Borrower (or by a related party for the benefit of the Borrower) to the Property Seller (or to a related party for the benefit of the Property Seller) as consideration for the property;

- All amounts paid by or on behalf of the Borrower and required to complete or repair a residence whether or not the cost of such completion or repairs is to be financed with the proceeds of a Minnesota Housing loan (which may be agreed upon beyond the contractually provided purchase price);
- The purchase price as well as all repair costs for FHA 203K Streamlined loans;
- All land cost or land value as stated in New Construction Requirements Section 3.09; and
- All special assessments paid or assumed by the Borrower.

Acquisition Cost does not include:

- Usual and reasonable closing or financing costs, or
- Any special assessments paid by the Property Seller.

3.05 Appraised Value

The appraised value of the subject property may not exceed 125% of the applicable Acquisition Cost Limit.

3.06 Personal Property

Personal Property may not be financed or listed as part of the total Minnesota Housing purchase transaction between the Borrower and Property Seller. Only permanently affixed property (fixtures) are eligible for financing.

3.07 Excess Property

The financing of a property may include only land necessary to maintain the "basic livability" of the dwelling.

- The land being financed may not provide other than incidental income to the borrower;
- The appraiser must state that the subject lot is not greater in size than other residential parcels in the community;
- The land may not comprise more than one parcel or be eligible for legal subdivision unless the appraiser states that the land is commensurate in size with other residential parcels in the community, and the borrower must certify that he or she has no intention of selling or leasing any portion of the land being financed.

3.08 Community Land Trusts

If a property is located in a Community Land Trust (“CLT”), the CLT must meet the following requirements:

- Borrower receives a full disclosure of their rights and obligations under the trust, including future limitations on sale;
- Borrower has access to secondary mortgage market products; and
- The terms and conditions of the CLT are compatible with the National CLT Network model and otherwise satisfactory to Minnesota Housing.

3.09 New Construction Requirements

In addition to the property eligibility requirements ~~already~~ stated in Section 4.02 of this Procedural Manual, a New Construction property must meet the following requirements:

- A property located within Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright counties must be serviced by a regional waste water treatment center or by a treatment system owned and operated by a local unit of government;
- The land must be zoned for residential housing;
- The land must not have been annexed within the previous calendar year;
- The cost of land purchased within the 24 months prior to the date on which construction begins must be included in the Acquisition Cost;
- The value of land, as determined by the appraiser, must be used to determine Acquisition Cost if the land was purchased more than 24 months prior to the date on which construction begins or through a non-arms length transaction;
- Any temporary financing (i.e. construction loan, bridge loan, contract for deed) provided prior to the date of the loan closing may not exceed 24 months in term; and
- Land equity (the dollar value of the difference between land value/cost and the total amount the Borrower owes against the land) may be used by a Borrower only as a down payment;
- A Certificate of Occupancy must be issued for the property prior to loan closing; and,
- The Borrower may not act as the General Contractor.

Chapter 4 – Loan Eligibility

4.01 Eligible Loans

The Master Servicer purchases closed loans from Lenders under contract in Minnesota Housing mortgage loan programs. The Lender must warrant that the following criteria have been met for each loan submitted for purchase.

- Eligible loan products include:
  - ◊ Conventional loan products underwritten to the following:
    - o Fannie Mae HFA Preferred
      - ▪ Approve/Eligible with DU.
      - ▪ Fannie Mae Expanded Approval Level 1/Eligible loans sold to the Master Servicer ~~may be originated only under the CASA program.~~
    - ~~o~~ ▪ Fannie Mae HFA Preferred Risk Sharing™
      - ▪ ~~may~~ May be originated only under the ~~Minnesota Mortgage Program~~[Minnesota Mortgage Program] and only by participating lenders that have fully executed the HFA Preferred Risk Sharing™ Supplement to the Participation Agreement.
      - ▪ Approve/Eligible with DU; and
      - ▪ Fannie Mae HFA Preferred Risk Sharing™ loans are not eligible for Expanded Approval.
  - ◊ FHA;
    - o FHA 203K Streamlined loans may be originated under the ~~MMP~~[MMP] and/or the CASA Program.
- FHA 203K Streamlined loans:
    - o Lender must verify that the purchase plus repair funds remain within the current Acquisition Cost Limit (see 3.03 Acquisition Cost Limit)
    - o Lender must use the Mortgage Loan Program FHA Streamlined 203K Appliance Form if appliances are included in the transaction.
    - o Lender must complete US Bank Home Mortgage MRBP Rehabilitation Loan Program Lender Approval Form.
  - ◊ VA; and,
  - ◊ RD.
- ~~Housing Choice Voucher loans may be originated only under the CASA Program. All local, state and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-~~

~~lending and wrongful discrimination in residential housing have been met;~~All local, state and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending and wrongful discrimination in residential housing have been met;

- Minnesota Housing First-Time Homebuyer, program income and property acquisition requirements have been met; and
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing via the HDS SF Web Application.

4.02 New Construction Requirements

In addition to the loan eligibility requirements already stated in this Procedural Manual~~,~~ (Section 3.09), a New Construction property must meet the following requirements:

- Minnesota Housing funds are not used for temporary initial financing (e.g. interim or construction financing);
- All sweat equity meets the requirements of the applicable loan product and insurer/guarantor, as well as the following:
  - ◊ Work was performed by the Borrower or members of a Borrower's family, specifically, the Borrower's brothers and sisters (whether by whole or half blood), spouse, or lineal descendants;
  - ◊ Individuals that perform the work must be qualified to do the specific type of work;
  - ◊ The maximum dollar amount of the sweat equity does not exceed $5,000;
  - ◊ Sweat equity is not a part of Acquisition Cost; and,
  - ◊ Sweat equity includes only the value of work and not the cost of materials.

4.03 Ineligible Loans

Ineligible loans include but are not limited to loans originated/underwritten as follows:

- Expanded Approval Levels 2 and 3 under Fannie Mae's Desktop Underwriter; and,
- Caution A-Minus Eligible Levels 1, 2, 3, 4 and 5 under Freddie Mac's Loan Prospector.

4.04 Subsidy Recapture Disclosure

Federal law requires that all loans funded by mortgage revenue bonds be subject to subsidy recapture regulations. Subsidy recapture enables the federal government to collect some of the subsidy realized by Borrowers from the interest rate differential resulting from the mortgage revenue bond financing.

Such subsidy is collected through the payment of income taxes to the Internal Revenue Service upon sale or disposition of the Borrower's home. Recapture applies, in varying degrees, only within the first nine years of the loan and is only required from Borrowers whose household income increases significantly during the recapture period and that make a gain on the sale of their home.

To ensure understanding and disclosure of subsidy recapture, Lenders must:

- Explain subsidy recapture to the Borrower at the time of loan application; and
- Require the Borrower to sign the completed Subsidy Recapture Disclosure Statement ~~at~~ prior to or at the time of closing.

4.05 Interest Rate / Amortization Requirements

Minnesota Housing requires the loan:

- Have a fixed rate; and
- The loan amount is fully amortized over the term of the loan by level installments of principal and interest payable on the 1st of each month.

4.06 Mortgage Term

Loans must have a 15-year or 30-year term.

4.07 Loan Mortgage Insurance Coverage

- Loans with a loan-to-value ratio in excess of 80% must be insured/guaranteed by a mortgage insurer that is acceptable to Minnesota Housing, including:
  - ◊ Federal Housing Administration (FHA);
  - ◊ Veteran's Administration (VA);
  - ◊ Rural Development (RD); or

◊ Fannie Mae HFA Preferred (Conventional loan with private mortgage insurance (PMI).

◊ Fannie Mae HFA Preferred Risk Sharing™ loans with a loan-to-value ratio in excess of 80% are not required to have private mortgage insurance coverage.

4.08 Private Mortgage Insurance Companies – Minimum Requirements

All private mortgage insurance companies must:

- Be licensed to do business in the State of Minnesota; and
- Maintain a rating of A2 from Moody's Investor Services and AA from Standard and Poors Corporation at the time the mortgage loan is purchased by the Master Servicer, or possess Fannie Mae and Freddie Mac approval.

4.09 Refinancing of an Existing Mortgage

Minnesota Housing does not allow the refinancing of an existing loan unless the loan is used to replace or refinance temporary initial financing that has an original mortgage term of 24 months or less such as:

- Construction or interim loans; or
- Bridge loans or gap loans.

4.10 Settlement/Closing Costs

Settlement/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 being closed (e.g. FHA, VA);
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal); and
- Ensure the Borrower does not pay more than a pro-rata share of property taxes.

4.11 ~~Junior Liens/Community Seconds~~Gifts

All ~~junior liens/community seconds (including resale restrictions)~~gifts used in conjunction with a Minnesota Housing loan must ~~comply with the following:~~satisfy the

~~All~~ requirements of the applicable first mortgage loan product and the insurer/guarantor~~;~~.

- ~~The junior lien with the larger loan amount takes prior position (2nd position) if combined with HAF;~~
- ~~Junior liens do not reduce Acquisition Cost;~~
- ~~A Borrower may receive cash back at closing from junior lien proceeds only when the cash back represents a refund of the Borrower's own investment as allowed by the first mortgage product; and~~
- ~~Minnesota Housing requires full disclosure of any and all junior liens.~~

4.12 Non-Minnesota Housing Junior Liens/Community Seconds

All junior liens/community seconds (including resale restrictions) used in conjunction with a Minnesota Housing loan must comply with the following:

- All requirements of the applicable first mortgage loan product and insurer/guarantor;
- The [Amortizing Loan Program] loan must take prior position (2nd position) if combined with a junior lien~~The junior lien with the larger loan amount takes prior position (2nd position) if combined with HAF~~[HAF] ~~or Amortizing Loan Program~~[Amortizing Loan Program];
- Junior liens do not reduce Acquisition Cost;
- A Borrower may receive cash back at closing from junior lien proceeds only when the cash back represents a refund of the Borrower's own investment as allowed by the first mortgage product; and
- Minnesota Housing requires full disclosure of any and all junior liens.

4.1~~2~~3 Non-Complying Loans

Minnesota Housing and/or the Master Servicer shall have 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 the Master Servicer, 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 and/or the Master Servicer;
- Preclude the Lender from future participation in Minnesota Housing programs.

4.14~~3~~Repurchase of Loans

The Participation Agreement between Minnesota Housing, ~~the Master Servicer~~ and the Lender contains the following repurchase language:

In the event that the Lender fails to observe or perform any covenant or condition in this Participation Agreement, the Manual, or the ~~Servicer~~Master Servicer Guide, or in the event that any warranty made by the Lender is determined by Minnesota Housing ~~or the Master Servicer~~ to be untrue, then Minnesota Housing ~~or the Master Servicer or both~~ shall be entitled to all remedies, at law or in equity, including but not limited to: (i) the right to tender Mortgage Loans to the Lender for repurchase as set forth in the Manual, the ~~Servicer~~Master Servicer Guide and in this Section 12 of the Participation Agreement; (ii) the right to rescind acceptance of this Participation Agreement; (iii) the right to seek equitable relief by way of injunction (mandatory or prohibitory) to prevent the breach or threatened breach of any of the provisions of this Participation Agreement, or to enforce the performance thereof; (iv) the right to seek damages, including consequential damages, arising by virtue of Minnesota Housing's sale of its debt securities in reliance on the Lender's performance of the provisions of this Participation Agreement, and (v) the right to terminate this Participation Agreement; provided, however, that such termination shall not diminish the rights of Minnesota Housing ~~or the Master Servicer~~ specified herein or in the Manual or the ~~Servicer~~Master Servicer Guide or affect any rights of the ~~Servicer~~Master Servicer under the Participating Lender Agreement. All such remedies shall be cumulative, and the exercise by Minnesota Housing ~~or the Master Servicer~~ of any one or more of them shall not in anyway alter or diminish the right of Minnesota Housing ~~or the Master Servicer~~ to any other remedy. The Lender acknowledges that Minnesota Housing ~~or the Master Servicer~~ may not become aware of a default hereunder by the Lender until a substantial period of time after such default has occurred and any related Mortgage Loans have been submitted to and purchased by the ~~Master Servicer~~Master Servicer, and the Lender agrees that any such delay shall not be grounds for a claim of laches. All remedies hereunder in favor of Minnesota Housing are in addition to those granted to the ~~Servicer~~Master Servicer under the Participating Lender Agreement as further provided in Section 24 of the Participation Agreement.

The Lender hereby agrees to repurchase any Mortgage Loan sold to the ~~Master Servicer~~Master Servicer pursuant to this Participation Agreement, at any time during the life of such Mortgage Loan, upon the occurrence of any of the following events:

- ~~*The Master Servicer has evidence of any violations of any rule, regulation, or requirement of Minnesota Housing, the Master Servicer or of any of the following: the Federal Housing Administration ("FHA"), Veterans Administration ("VA"), Rural Housing ("RHS"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Federal National Mortgage Association ("Fannie Mae"), the Government National Mortgage Association ("GNMA") or any other purchaser or guarantor of Mortgage Loans.*~~*Minnesota Housing has evidence of any violation~~s~~ of any rule, regulation or requirement of Minnesota Housing relating to the applicable requirements of Section 143 of the Internal Revenue Code of 1986, as amended (or any successor statute or applicable income tax regulation promulgated or applicable under such Internal Revenue Code) in order that a Mortgage Loan, in the determination of the Agency, is eligible to be funded with the proceeds of a "qualified mortgage issue" as defined in Section 143 of the Internal Revenue Code (collectively, the "MRB Requirements").*
- *Any false statement, misstatement, or act or omission of material fact contained in the Mortgage Loan documentation resulting from the Lender's negligence or failure to exercise due diligence as disclosed by actual inspection by ~~the Master Servicer~~Minnesota Housing or its representative, or otherwise disclosed~~.~~, that in the determination of ~~the Agency~~Minnesota Housing~~,~~ may adversely affect compliance of the Mortgage Loan with the MRB ~~R~~requirements.*
- ~~*The Lender fails to obtain FHA insurance, a VA guaranty or Rural Development guaranty or appropriate private mortgage insurance, or if such insurance or guaranty lapses or for any reason becomes unavailable, as a result of any negligent act or omission by the Lender, or the failure by the Lender to obtain such insurance or guaranty within 90 days from the date of purchase.*~~
- ~~*The Master Servicer is required to repurchase any Mortgage Loan sold or pledged by it to GNMA, Fannie Mae, Freddie Mac or any other purchaser or guarantor, by reason of the Lender's negligence or failure to exercise due diligence or a deficiency in or omission with respect to the documents, instruments, and agreements, pertaining to any Mortgage Loan.*~~
- *~~The Master Servicer~~Minnesota Housing has evidence that any representation or warranty made by the Lender under this Participation Agreement with respect to any Mortgage Loan is, in whole or in part and with or without knowledge of the Lender, false at the time when made by the Lender or becomes false upon the occurrence of subsequent events~~.~~ and such falsity, in the determination of ~~the Agency~~Minnesota Housing, may adversely affect compliance of the Mortgage Loan with the MRB Requirements.*
- *Any material fraud, misrepresentation or act or omission with respect to the information submitted on a particular Mortgage Loan is determined to exist by the ~~Master Servicer~~Master Servicer,~~—~~ or Minnesota Housing, and such condition, in the determination of ~~the Agency~~Minnesota Housing, may adversely affect compliance of the Mortgage Loan with the MRB Requirements ~~FHA, VA, RHS, Freddie Mac, Fannie Mae, GNMA or any other~~*

~~purchaser or guarantor of the Mortgage Loan~~. This includes, but is not limited to, mortgagor or other third party fraud or misrepresentation, and any misrepresentation of the mortgagor's income, funds on deposit or employment, or of the occupancy status of the mortgaged residence.

- *The Lender's breach of any covenant or obligation to ~~the Master Servicer~~ Minnesota Housing with respect to the Mortgage Loan under this Participation Agreement, the ~~Master Servicer~~Master Servicer Guide or the Procedural Manual~~.~~ a~~A~~nd such breach, in the determination of ~~the Agency~~Minnesota Housing, may adversely affect compliance of the Mortgage Loan with the MRB Requirements.*
- *The repurchase price for any Mortgage Loan that the Lender is required to repurchase from ~~the Master Servicer~~Minnesota Housing shall be an amount equal to the then unpaid principal balance of the Mortgage Loan on the date of repurchase, plus accrued interest~~,~~ . ~~any premium paid to the Lender upon purchase of the Mortgage Loan, and direct expenses (including attorney's fees) incurred by the Master Servicer for any actions taken by it concerning, as a result of, or in connection with, any of the events or circumstances set forth herein as cause for repurchase.~~ If at the time repurchase of a Mortgage Loan is required, it is not practicable for the Lender to repurchase the Mortgage Loan because it has been pooled into a mortgage-backed security (the "MBS") and cannot be removed therefrom, then Minnesota Housing may, as an alternative remedy~~ies~~, require the Lender (i) to purchase the MBS if the Mortgage Loan is the sole loan pooled in the MBS, at a price equal to the then unpaid principal amount of the MBS, on the date of purchase, plus accrued interest, or (ii) to purchase a participation interest in the MBS if the Mortgage Loan is not the only Mortgage Loan pooled in the MBS, at a price equal to the then unpaid principal amount of the MBS allocable to the Mortgage Loan on the date of purchase, plus accrued interest thereon. The Lender shall in any event also pay to the ~~Servicer~~Master Servicer any premium paid to the Lender upon purchase of the Mortgage Loan, and to Minnesota Housing direct expenses (including attorney's fees) incurred by Minnesota Housing for any actions taken by it concerning, as a result of, or in connection with, any of the events or circumstances set forth herein as cause for repurchase.*
- *The ~~Master Servicer's~~ exercise by Minnesota Housing ~~-~~of its right to have the Lender repurchase any Mortgage Loan or exercise the alternative remedies specified in Section 12 of the Participation Agreement ~~hereunder,~~ shall be in addition to, and not in lieu of, any other rights or remedies which the ~~Master Servicer~~Master Servicer or Minnesota Housing may have against the Lender ~~here~~under the Participation Agreement or ~~under~~ applicable law.*

The HFA Preferred Risk Sharing™ Supplement to the Participation Agreement relating to HFA Preferred Risk Sharing™ Loans contains additional provisions relating to the obligation of the Lender to repurchase such loans.

4.1~~4~~5 Indemnification

The Lender shall protect, indemnify, and hold harmless ~~the Master Servicer and~~ Minnesota Housing and ~~their~~ its ~~respective~~ members, officers, employees and agents (the "Indemnified Parties") from, and in respect of, any and all losses, liabilities, reasonable costs, and expenses (including attorneys' fees) that may be incurred by the Indemnified Parties with respect to, or proximately resulting from, any breach of, any representation, warranty, or covenant of the Lender ~~under the Participation Agreement~~hereunder. ~~The Servicer and~~ Minnesota Housing and the ~~Servicer~~Master Servicer shall be entitled to rely upon the Lender as assembler and preparer of all Mortgage Loan documents and are under no duty whatsoever to investigate or confirm any of the information set forth therein as to its honesty, accuracy, or completeness. The Lender hereby further agrees to indemnify and hold harmless the Indemnified Parties from any claim, loss or other damage, including reasonable attorneys' fees, resulting in whole or in part from any inaccuracy or incompleteness in the Mortgage Loan documents or any act or omission by the Lender, its agents and employees, including but not limited to failure to comply with applicable state, federal and local statutes or regulations. To the extent the Lender, its agents or employees, commits an actual wrong, or makes some error or omission in the preparation of any Mortgage Loan or its documents and as a result thereof, and based thereon, any Indemnified Party commits an act or omission for which it becomes liable to the Mortgagor(s) or any third party and/or a claim or cause of action is instituted against an Indemnified Party, the Lender hereby further agrees to indemnify and hold harmless the Indemnified Parties from any such loss or damage, including reasonable attorneys' fees, resulting therefrom.

4.1~~5~~6 Refund of Service Release Premiums

- *If any Mortgage Loan is prepaid in full within three months following the date of purchase by the Master Servicer~~,~~ from the Lender, the Lender shall refund to the Master Servicer all service release premiums received from the Master Servicer with respect to that Mortgage Loan.*
- *If any Mortgage Loan, underwritten by the Lender, becomes delinquent for any of the first three scheduled monthly payments due the Master Servicer, and is not brought current by the borrower within 90 days of delinquency, the Lender shall refund to the Master Servicer all service release premiums received from the Master Servicer with respect to that Mortgage Loan plus an additional fee of $1,000 on Fannie Mae HFA Preferred (Conventional) loans and $3,000 on Government loans (FHA, VA and RD).*

Chapter 5 – ~~Special Assistance~~Assistance Programs

Chapter 5

~~5.01 Community Activity Set Aside Program~~

~~CASA loans must meet the loan requirements of the Minnesota Mortgage Program~~[Minnesota Mortgage Program]~~ and the requirements of the CASA Initiative.~~

~~All CASA borrowers must provide proof of completion of Qualified Homebuyer Education[2].~~

~~In addition to the loan terms available under MMP~~[MMP]~~, CASA also allows:~~

~~Expanded Approval® Loans (Levels I per Fannie Mae product guidelines);~~

~~Housing Choice Voucher loans.~~

~~Lender is responsible to determine that an individual Borrower meets the CASA Initiative's requirements.~~

~~5.02 Housing Choice Voucher (HCV) Homeownership Program~~

~~The HCV Homeownership Program allows HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses.~~

~~Minnesota Housing allows the combination of the HCV subsidy with loans sold to the Master Servicer only under the CASA program.~~

~~Lenders originating loans with a HCV subsidy must service the loans prior to purchase by the Master Servicer in~~

[2] ~~This requirement is satisfied when at least one borrower in the household submits a certificate of completion~~

~~**compliance with this Procedural Manual. This involves collecting a portion of the monthly payment from the borrower and a portion of the monthly payment from the public housing authority.**~~

~~**HCV recipients are eligible to receive HAF**~~**[HAF]** ~~**ECA.**~~

5.01 ~~Homeownership Assistance Fund~~[Homeownership Assistance Fund]

The ~~Homeownership Assistance Fund~~[Homeownership Assistance Fund] (~~HAF~~[HAF]) program provides assistance to pay for eligible Borrower expenses including down payment and customary closing costs.

~~HAF~~[HAF] loans are~~is~~ available in increments of $100 up to the greater of 3% of the purchase price or $3,000.

~~HAF~~[HAF] loans are available only in conjunction with a first mortgage loan purchased by the Master Servicer under a Minnesota Housing Mortgage Revenue Bond program.

~~HAF~~[HAF] loans are not permitted in conjunction with the Fannie Mae HFA Preferred Risk Sharing™ product.

5.~~04~~02 ~~HAF~~[HAF] Borrower Eligibility

~~The Borrower must meet at least one of the following criteria:~~

~~Be purchasing a home in an MMP~~[MMP] ~~Spotlight Area (see MMP~~[MMP] ~~Spotlight Areas in the Resources section of the Minnesota Housing Mortgage Loan Program Forms webpage). A home in an MMP~~[MMP] ~~Spotlight area is located in either:~~

~~A Low-Income Census Tract; or,~~

~~A High Need Zip Code;~~

~~Earn less than 60% of area median income tiered by household size (see HAF~~[HAF] ~~Income Limits on Minnesota Housing's website); or,~~

~~The first mortgage is sold to the Master Servicer under the CASA program.~~

The Borrower must earn less than 60% of area median income tiered by household size (see ~~HAF~~[HAF] Income Limits on Minnesota Housing's website).

~~**Minimum Credit Score**:~~

- ~~If the Borrower(s) have a credit score, the credit score the Lender's underwriter uses to underwrite the loan must be at least 620;~~
- ~~If no Borrower(s) have credit scores, alternative credit suggesting a prudent a underwriting risk must be developed; and,~~
- ~~If one Borrower has a credit score of at least 620 but the other Borrower(s) does not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines.~~

Cash Investment~~:~~

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

Asset Limit~~:~~

A Borrower's liquid assets after closing are limited to the greater of ~~six~~ eight months principal, interest, taxes, and insurance or $~~5~~8,000.

5.03 ~~HAF~~[HAF] Loan Requirements

- A Borrower may receive cash back at closing only when the cash back represents a refund of the Borrower's investment (reflected on HUD-1 as paid outside of closing) and the first mortgage product and insurer/guarantor allows the replenishment/reimbursement/refund.
- ~~HAF~~[HAF] loans may be combined only with Minnesota Housing First-Time Homebuyer loan products with a 30-year term.
- ~~HAF~~[HAF] is a deferred payment loan. The Borrower must repay the loan in full when, among other things:
  - ◊ The maturity date of the ~~HAF~~[HAF] loan is reached;
  - ◊ The property is sold or transferred;
  - ◊ The first mortgage is paid in full, upon a refinancing or otherwise;
  - ◊ The first mortgage is in default or becomes or is declared to be due and payable in full, or
  - ◊ At such time as the property is no longer owner-occupied by the Borrower.

~~◊~~

- ~~HAF~~[HAF] is a junior lien.
- A ~~HAF~~[HAF] loan cannot be assumed or subordinated.

5.~~06~~04 ~~HAF~~[HAF] Lender Warranties

In addition to the warranties stated in Section 1.07, Lender warrants the following:

- Borrower's cash investment is paid from Borrower's out of pocket funds;
- Borrower liquid asset reserves after closing are not more than the greater of ~~6~~ 8 months' PITI or $~~5~~8,000; and
- ~~HAF~~[HAF] monies received by Borrower are being applied to the transaction and verified through the HUD-1 closing statement.

5.05 ~~Amortizing Loan Program~~[Amortizing Loan Program]

The ~~Amortizing Loan Program~~[Amortizing Loan Program] provides assistance to pay for eligible expenses, including down payment and customary buyer closing costs.

~~The Amortizing Loan Program~~[Amortizing Loan Program] loans are ~~is~~ fully amortizing with monthly payments and a 10-~~-~~year term.

~~The Amortizing Loan Program~~[Amortizing Loan Program] loans are ~~is~~ available in increments of $100, up to the greater of 5% of the purchase price or $5,000.

~~Amortizing Loan Program~~[Amortizing Loan Program] loans are available only in conjunction with a first mortgage loan purchased by the Master Servicer under a Minnesota Housing Mortgage Revenue Bond program.

~~Amortizing Loan Program~~[Amortizing Loan Program] loans are not permitted in conjunction with the HFA Preferred Risk Sharing™ product.

5.06 ~~Amortizing Loan Program~~[Amortizing Loan Program] Borrower Eligibility

Cash Investment

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

5.07 ~~Amortizing Loan Program~~[Amortizing Loan Program] Loan Requirements

- A Borrower may receive cash back at closing only when the cash back represents a refund of the Borrower's investment (reflected on HUD-1 as paid outside of closing) and the first mortgage product and insurer/guarantor allows the replenishment/reimbursement/refund.
- ~~Amortizing Loan Program~~[Amortizing Loan Program] loans may be combined only with Minnesota Housing First-Time Homebuyer loan products with a 30-year term.
- ~~Amortizing Loan Program~~[Amortizing Loan Program] loans are fully amortizing. The Borrower must make monthly payments of even date with the first mortgage payment.
- The Amortizing Loan ~~Payment~~ program loan must be paid in full when:
  - ◊ The maturity date of the loan is reached;
  - ◊ The property is sold or transferred;
  - ◊ The first mortgage is paid in full, upon a refinancing or otherwise;
  - ◊ The first mortgage is in default or becomes or is declared to be due and payable in full, or
  - ◊ At such time as the property is no longer owner-occupied by the Borrower.
- The ~~Amortizing Loan Program~~[Amortizing Loan Program] loan is a junior lien and may not be assumed or subordinated.

5.08 ~~Amortizing Loan Program~~[Amortizing Loan Program] Lender Warranties

In addition to the warranties stated in Section 1.07, Lender warrants the following:

- Borrower's cash investment is paid from Borrower's own funds;
- Borrower liquid asset reserves after closing are not more than the greater of 8 months' PITI or $8,000; and
- Funds received by Borrower are being applied to the transaction and verified through the HUD-1 closing statement.

5.09 Housing Choice Voucher (HCV) Homeownership Program

The HCV Homeownership Program allows HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses. Lenders originating HCV Homeownership loans must:

- Complete the US Bank Home Mortgage MRBP Section 8 Homeownership Subsidy Program Agreement and Home Choice/Section 8 Contract Information Form; and
- Service the loans prior to purchase by the Master Servicer in compliance with this Procedural Manual. This involves collecting a portion of the monthly payment from the borrower and a portion of the monthly payment from the public housing authority.

~~Chapter 6 – Commitment/Disbursement~~

~~Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program and/or initiative during any business day as listed:~~

- ~~A maximum dollar amount of money a Lender may commit; or~~
- ~~A maximum number of Individual Commitments a Lender may commit.~~

~~Lender may commit funds on a first-come, first-served basis. Fund balances and current interest rates are available on the Minnesota Housing website or by logging into the HDS SF Web Application.~~

~~Individual Commitments are to be considered as "forward commitments" by the Lender. It is expected that the loan will be submitted to gain a Purchase Approval status via the HDS SF Web Application.~~

~~6.01 Requesting a Commitment~~

~~Once the Lender has determined that a Borrower meets the loan requirements, an Individual Commitment of funds is requested through Minnesota Housing's HDS SF Web Application.~~

~~Requests for a Commitment that meets the eligibility requirements in the Procedural Manual will be authorized electronically.~~

~~The Commitment period extends from the date of electronic commitment until the date of the arrival of the closed loan package at the Master Servicer's place of business.~~

~~Commitments for existing properties with no fees are available to participating Lenders for 75 days. At day 76 and then again at day 106 an extension fee of ½ of 1% will be discounted at loan purchase. Lender may not charge the Borrower for the extension fees. All Commitments will be automatically cancelled at day 136. (See chart below.)~~

~~Commitments for New Construction properties with no fees are available to participating Lenders for 115 days. At day 116 and then again at day 146 an extension fee of ½ of 1% will be discounted at loan purchase. Lender~~

~~may not charge the Borrower for the extension fees. All Commitments will be automatically cancelled at day 176. (See chart below).~~

~~Construction Type~~	~~Free Commitment Period~~	~~First Extension Terms~~	~~Second Extension Terms~~	~~Cancellation~~
~~Existing Construction~~	~~75 days~~	~~At day 76 a fee of .50% is assessed~~	~~At day 106 a fee of .50% is assessed~~	~~Day 136~~
~~New Construction~~	~~115 days~~	~~At day 116 a fee of .50% is assessed~~	~~At day 146 a fee of .50 is assessed~~	~~Day 176~~

Chapter 6 – Commitment/Disbursement

See Appendix for Commitment Periods that vary by Loan Program

~~Loans must meet eligibility requirements and gain a status of Purchase Approval via the HDS SF Web Application within the timeframes specified above.~~

~~6.02 Modifying a Commitment~~

- ~~Any change to a Commitment must meet eligibility requirements and must be submitted via the HDS SF Web Application to qualify.~~
- ~~Any qualifying Commitment change will not alter the commitment period of the original commitment.~~
- ~~A change of Borrower or property on the Commitment will not be allowed.~~
- ~~An increase in Loan Amount will be allowed if funds are available.~~

~~6.03 Canceling a Commitment~~

~~Minnesota Housing requires Lender to cancel any Commitment that will not be used for the specified loan. Any Lender that cancels an existing~~

~~commitment may not re-commit the same loan within the first 90 days following cancellation of the commitment.~~

~~6.04 Transfer of Individual Commitments~~

~~Lender may not transfer commitments to another Lender. Minnesota Housing may, in its discretion, transfer a Commitment to another Lender under the following conditions:~~

- ~~Lender requests in writing a transfer of the Commitment to different Lender and documents the reason; and~~
- ~~Original Lender must transfer and/or assign case documents to the new Lender.~~

~~6.05 Duplicate Borrower Commitments~~

~~Lender may not cancel an Individual Commitment and subsequently recommit funds for the same Borrower/property in order to obtain more favorable Commitment terms.~~

~~6.06 Purchase Approval~~

~~Purchase Approval obtained from the HDS SF Web Application confirms on a preliminary basis that a loan meets bond compliance and Agency guidelines, subject to Quality Control audit review or other investigation.~~

~~6.07 Hold Fees (Incomplete Purchase Packages)~~

~~Minnesota Housing will allow a three-week period with no fees assessed, from the date of notification from the Master Servicer, for the Lender to cure any exceptions. If the exception(s) remains outstanding beyond the three-week period, fees in an amount equal to .125% of the loan amount will accrue each week until the exception is cured. The purchase price of the loan at the time of purchase by the Master Servicer will be discounted in an amount equal to the accrued fees due.~~

~~6.08 Master Servicer Loan Purchase/Disbursement of Funds~~

~~The Master Servicer will purchase and disburse funds for all loans that have closed, attained the Purchase Approval stage on Minnesota Housing's SF Web Application and meet Master Servicer purchase criteria.~~

Chapter 7 – Documentation Requirements

7.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- Loans must be closed and disbursed prior to requesting Minnesota Housing loan ~~Purchase~~ Funding Approval via the HDS SF Web Application.
- Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan.
- All loan documents must be industry standard and meet the requirements of the Master Servicer, the underlying loan product and the insurer/guarantor, as applicable.
- All loan documents must be complete, accurate and reviewed by the Lender at the various and appropriate stages of the loan.
- For loans underwritten utilizing industry standard automated underwriting systems, Minnesota Housing requires full documentation when verifying income and assets to confirm Minnesota Housing eligibility.
- Minnesota Housing or industry-standard forms may not be altered in any way other than to add a company name and logo.
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has received an Individual Commitment of Funds from Minnesota Housing.
- All mortgage assignments must run directly from the Lender to the Master Servicer.
- Lender must submit final documents to the Master Servicer within 120 days of Master Servicer's loan purchase.

7.02 Minnesota Housing Documentation/Delivery Requirements

The Master Servicer provides the Delivery Checklist form detailing specific documentation/delivery requirements. Lender must fully execute and deliver documents within designated timeframes. In addition, Lenders must specifically warrant the following:

- Borrower Affidavit has been signed, and duly notarized, by each Borrower who signs the note and intends to reside in the property as their Principal Residence.
- Lender has obtained, and reviewed, applicable documentation to determine compliance with the certifications on the Borrower Affidavit as

it pertains to the mortgage revenue bond First-Time Homebuyer requirements.

- Documentation includes, but is not limited to:
  - ◊ Signed Federal income tax returns (IRS Form 1040 and all its versions) for the preceding 3-year period; or,
  - ◊ The computer generated form for electronically filed returns showing the line numbers and all corresponding entries; or
  - ◊ A letter from the IRS indicating the type of tax return filed and the significant line entries from the return.

- Lender has obtained a signed, written explanation from any Borrower if there is any indication that the Borrower has had an ownership interest in a primary residence within the past three years. Any such interest must be documented and verified to provide reasonable assurance that there was no actual ownership in a primary residence.
- Property Seller Affidavit has been signed, and duly notarized, by those persons conveying the residence and/or land to the Borrower.
- Lender has reviewed any and all contracts in connection with the residence sale transaction to ensure total compliance with this manual.
- Subsidy Recapture Disclosure Statement has been completed and signed by each Borrower prior to or at closing.

Documentation not delivered to the Master Servicer within the specified time frames, may result, at Minnesota Housing's or the Master Servicer's discretion, in the Lender being required to repurchase the loan, or any other remedy as identified in this Procedural Manual. Minnesota Housing and/or the Master Servicer may also, at its discretion, extend the aforementioned timeframes.

7.03 Records Retention

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.

Loan product and insurer/guarantor minimum and/or alternative documentation requirements does 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 and/or loan audit.

Chapter 8 – Servicing

8.01 Servicing

Minnesota Housing may, at its discretion, subject to any contractual provisions between Minnesota Housing and the Master Servicer, change the Master Servicer.

8.02 Lender Servicing Responsibilities

Lender must complete the following loan servicing activities during the period from loan closing to Master Servicer purchase <u>and</u> subsequent to transfer of servicing.

- Collect and apply all payments made. All payments <u>must</u> be entered into the HDS SF Web Application.

- Payments must include:
  - ◊ Monthly loan principal and interest;
  - ◊ 1/12th of annual property tax;
  - ◊ Mortgage insurance, if applicable;
  - ◊ Flood insurance, if applicable;
  - ◊ Hazard insurance (escrows);
  - ◊ Assessments, if applicable;

- Maintain payment history indicating:
  - ◊ Breakdown of principal, interest and escrows;
  - ◊ Any principal repayments
  - ◊ Remaining principal balance of loan, and;

- Collect any past due payments.

8.03 Assumption/Due-On-Sale

A Minnesota Housing loan financed with either a Conventional (HFA Preferred or HFA Preferred Risk Sharing) or Rural Development loan product is due upon sale and may not be assumed.

A Minnesota Housing loan financed with either a Federal Housing Administration (FHA) or Veteran's Administration (VA) loan product may be assumed only by persons who:

- At the time of the assumption, intend to occupy the property as their Principal Residence within 60 days of closing;
- Have not had an ownership interest in a Principal Residence (other than the property being purchased with the proceeds of the loan) during the three year period ending on the day the Borrower executed the loan application;
- Do not have gross household income that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing's Website); and
- Are not purchasing or acquiring the residence at an Acquisition Cost that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing's Website).

Unless the loan is assumed in accordance with the above provisions, the loan is due upon sale or transfer of title.

8.04 Hardship Policy~~ – Homeownership Assistance Fund~~[Homeownership Assistance Fund]~~ Loan~~

Minnesota Housing has in place a hardship policy for its ~~HAF~~[HAF] and ~~Amortizing Loan Program~~[Amortizing Loan Program] loans that allows forgiveness either in part or whole if the Borrower is experiencing severe financial hardships that prevent him or her from paying back full indebtedness.

Appendix

Definitions

All terms used in the Procedural Manual use mortgage industry standard definitions except for the following:

Term	Definition
Acquisition Cost	The cost of acquiring a completed residential unit (See section 3.04).
~~Disabled Household Resident~~	~~A Borrower, or household member, who has a permanent physical or mental condition, which substantially reduces the person's ability to function in a residential setting. If the disability does not require the use of a mobility device, the Borrower must provide a written licensed physician certification and description pertaining to the nature of the disability, or a Supplemental Security Income (SSI) award letter or Social Security Disability Insurance (SSDI) award letter.~~
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 2.05 of this Procedural Manual.
~~High Need Zip Code~~	~~A zip code identified by Minnesota Housing which has been impacted by high rates of foreclosures, delinquencies, and unemployment.~~
~~Household of Color or Hispanic Ethnicity~~	~~A household with at least one Borrower self-identified as belonging to at least one of the following Office of Management and Budget ethnic/racial categories: American Indian or Alaska Native, Asian, Black or African American, Hispanic or Latino Ethnicity; or Native Hawaiian or Pacific Islander.~~
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a

	specific property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
New Construction/ Newly Constructed Residence	New construction or a newly constructed residence refers to a residence that~~, which~~ either has not been previously 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 gap loan).
Personal Property	Property such as an appliance, a piece of furniture, or a radio that~~ etc., which~~ under applicable law is not a fixture.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.

~~New Construction/ Newly Constructed Residence~~	~~New construction or a newly constructed residence refers to a residence, which either has not been previously 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 gap loan).~~
~~Personal Property~~	~~Property such as an appliance, a piece of furniture, a radio etc., which under applicable law is not a fixture.~~
~~Principal Residence~~	~~A property used as the primary domicile of the owner-occupant Borrower and his/her household.~~
Property Seller	The seller of the property under contract for sale to the borrower who is using Minnesota Housing financing.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed in a **classroom** setting by organizations that have had staff trained under HomeStretch or NeighborWorks America.
~~Single Head of Household~~	~~A family with one adult householder, no spouse/partner in the household, and one or more dependents in the household.~~

Forms List

Acquisition Cost Worksheet ~~-~~– optional

~~Amortizing Loan Program~~[Amortizing Loan Program] Note, if applicable

~~Amortizing Loan Program~~[Amortizing Loan Program] Mortgage, if applicable

Borrower Affidavit

FHA Streamlined 203K Appliance Form[3]

~~HAF~~[HAF] Mortgage, if applicable

~~HAF~~[HAF] Note, if applicable

Income Eligibility Calculation Worksheet - optional

Mortgage Deed Amendment

- Fannie Mae HFA Preferred (Conventional)/RD;
- FHA; or,
- VA

Notice to Buyers FHA

Notice to Veteran and Consent

Property Seller Affidavit

Subsidy Recapture Disclosure Statement

[3] Applicable only for FHA Streamlined 203K loans

AGENDA ITEM: 9.C.(2)
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: HOME HELP Program Procedural Manual Change

CONTACT: Margaret Davies, 651-296-3631
margaret.davies@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests changes to the HOME Homeownership Entry Loan Program (HOME HELP) Procedural Manual that incorporate the program changes approved by Board in April 2012. The primary changes stem from upcoming changes to the federal HOME rule governing entry cost assistance programs. It is anticipated that the changes herein will take effect on or about October 1, 2012.

FISCAL IMPACT:
The Procedural Manual implements policies and procedures for the program, which is budgeted through the Affordable Housing Plan. Thus, there is no fiscal impact.

MEETING AGENCY PRIORITIES:

☑ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☐ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Background
- Draft program manual

BACKGROUND:
At the April Board meeting, staff brought recommendations for changes to Minnesota Housing's home mortgage and entry cost assistance programs. Previously approved HOME HELP Program changes are a result of changes in the federal HOME rule as applied by Minnesota Housing to meet program objectives. The HOME HELP Program Procedural Manual changes incorporate the recommendations approved by the Board.

Since program changes were approved, staff recommends the additional change so that the maximum debt-to-income ratio is 50% as compared to 48% in the initial recommendation. Borrowers must already demonstrate their willingness and ability to pay their monthly expenses through underlying mortgage product guidelines. In order to qualify for any underlying mortgage product with a high debt-to-income ratio, borrowers must show strong compensating factors demonstrating their ability to pay household expenses.

Section 4.03 of the revised HOME HELP Procedural Manual references a calculator worksheet used to determine the HOME HELP loan amount. This web-based calculator tool is under development. The HOME HELP loan amount will be calculated using the same method outlined in the program concept brought to board in April 2012, and shown below.

Base: Greater of $5,000 or 5% of home purchase price (min. $5,000)

+ $1,000 if bank mediated/foreclosed property
+ $1,000 for household income less than 60% area median income (AMI)
+ $1,000 for household income less than 50% AMI
+$1,000 for housing ratio greater than 25% (housing expenses / monthly income)

HOME HELP Loan Amount ($10,000 maximum)

Please note that the proposed HOME HELP changes will not be effective until on or about October 1, 2012. The final date will be determined upon completion of all internal systems changes necessary to provide for implementation.

HOME Homeowner Entry Loan Program Procedural Manual

~~January 30~~October 1, 2012

Introduction

Mission Statement

Minnesota Housing finances and advances affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

Background

The Minnesota Housing Finance Agency ("Minnesota Housing" or "MHFA") was created in 1971 by the Minnesota Legislature.

Minnesota Housing created the HOME Homeowner Entry Loan Program (HOME HELP) to provide financial assistance to address increased down payment requirements resulting from the Declining Market designations in much of the 11-county Twin Cities Metropolitan area and Greater Minnesota.

Procedural Manual

This Procedural Manual sets forth for ~~lenders~~ Lenders the terms and conditions under which Minnesota Housing will purchase mortgages under the HOME HELP Program.

HOME Homeowner Entry Loan Program (HOME HELP)

HOME HELP uses federal HOME dollars to bridge affordability gaps and promote successful homeownership by providing down payment and closing cost assistance to eligible Borrowers.~~HOME HELP uses federal HOME dollars to bridge affordability gaps and promote successful homeownership by providing down payment and closing cost assistance to eligible Community Activity Set Aside (CASA) Borrowers.~~

Chapter 1 – Partner Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the HOME Homeowner Entry Loan Program Lender Acceptance Agreement (hereinafter referred to as the "Agreement") executed between ~~Seller~~Lender and Minnesota Housing. The Agreement is incorporated herein by reference and is a part hereof as if fully set forth herein at length.

Minnesota Housing reserves the right to:

- Change the amount of assistance at any time under its sole discretion;
- Alter or waive any of the requirements herein;
- Impose other and additional requirements; and,
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

Minnesota Housing is under no obligation to purchase any HOME HELP assistance loan or retain ownership of an assistance loan that does not comply fully with this Procedural Manual. Minnesota Housing grants waivers, alterations or revisions at its sole discretion.

1.02 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 ~~Seller~~Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the ~~Seller~~Lender shall promptly report such discovery to Minnesota Housing.
- Minnesota Housing may exercise all remedies available to it, both legal and equitable, to recover funds from the ~~Seller~~Lender and/or the Borrower. This includes loan funds, together with all applicable administrative costs and other fees or commissions received by the ~~Seller~~Lender in connection with the loan and for all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery thereof.

1.03 Compliance with Privacy Statutes

The Minnesota Government Data Practices Act:

- Requires the ~~Seller~~Lender to supply Borrowers with the Tennessen Warning and the Privacy Act Notice when requesting private data; and,
- Governs when the disclosure of the Borrower's social security number is required.

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Sections 270A.01 to 270A.12) allows the disclosure of the Borrower's Social Security Number or Minnesota Tax Identification 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.

Note: Only the Borrower's name, address and amount of assistance received are public data and may be released to the public. All other data is private and may be released only to those authorized access by law.

1.04 Unauthorized Compensation

~~Seller~~Lender may receive fees approved in this Procedural Manual. However, ~~Seller~~Lender shall not receive or demand from realtor/builder/Property ~~Seller~~Lender/Borrower:

- Kickbacks;
- Commissions; or
- Other compensation.

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The ~~Seller~~Lender is required to keep on file a complete copy of documents for each loan originated for purchase by Minnesota Housing. ~~A loan file may be requested to be made available to Minnesota Housing at the Seller's Minnesota office during regular business hours or a copy forwarded to Minnesota Housing for review.~~ Loan audits ~~will~~ may include, but are not limited to, the following:

- ~~A minimum of 10% of all loans purchased;~~HOME HELP loans associated with a Minnesota Housing Minnesota Mortgage Program (MMP) loan selected for audit;
- ~~All~~HOME HELP loans associated with a Minnesota Housing MMP loan which goes into early payment default (90 days or more past due) in the first 9 months; and
- HOME HELP l~~L~~oans associated with Minnesota Housing MMP loans originated by ~~Seller~~Lenders with higher-than-average delinquency rates.

Audited loans are reviewed for:
- HOME guideline compliance;
- Minnesota Housing program/policy compliance;
- Compliance with credit/property underwriting requirements of the underlying loan product;
- Compliance with insurer/guarantor requirements;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the loan portfolio in part or in whole.

1.06 Termination of ~~Seller~~Lender Participation

In the event that ~~Seller~~Lender fails to observe or perform any condition in the Agreement or this Procedural Manual, or in the event that any warranty made by ~~Seller~~Lender is determined by Minnesota Housing to be untrue, then Minnesota Housing shall be entitled to remedies, at law or in equity, including but not limited to:
- The right to tender HOME HELP loans to ~~Seller~~Lender for repurchase as set forth in the Agreement;
- The right to rescind acceptance of the Agreement; and,
- The right to terminate the Agreement.

All such remedies shall be cumulative and the exercise by Minnesota Housing of any one or more of them shall not in any way alter or diminish Minnesota Housing's right to any other remedy provided in the Agreement or by law.

Upon termination of a ~~Seller~~Lender's Agreement Minnesota Housing will:
- Continue to purchase eligible loans for which a commitment has been issued, until the commitment expiration date; and
- Not refund participation fees to the ~~Seller~~Lender

Minnesota Housing may, at its option, impose remedies other than termination of the Agreement for ~~Seller~~Lender nonperformance.

~~Seller~~Lender may request reinstatement into the HOME HELP Program. The decision whether or not to reinstate a ~~Seller~~Lender shall be at Minnesota Housing's sole discretion.

~~Seller~~Lender participation in the HOME HELP Program is contingent upon the ~~Seller~~Lender being a participant in the Minnesota Mortgage Program. ~~(MMP) and the Community Activity Set Aside Program (CASA).~~ ~~Seller~~Lender's participation in the HOME HELP Program will terminate upon:

- Termination of the HOME HELP Program;
- ~~Seller~~Lender's termination of participation in the MMP ~~and CASA~~ program~~s~~; or,
- Failure to comply with all of the terms of the Agreement.

1.07 Covenants

The ~~Seller~~Lender agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders, including but not limited to the following (and any applicable rules, regulations, and orders thereunder):

- 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;
- Section 527 of the National Housing Act;
- Equal Credit Opportunity Act;
- Fair Credit Reporting Act;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Law (Title VIII of the Civil Rights Act of 1968);
- HUD Lead Requirements - Chapter 24 of the Code of Federal Regulations (CFR), Section 92.355;
- HUD's Housing Quality Standards (HQS); 24 CFR 982.401;
- Runway Clear Zones – 24 CFR, Part 51;
- Coastal Barrier – 16 U.S.C. 3501;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth In Lending Act;
- Home Mortgage Disclosure Act;
- Anti Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H;
- Real Estate Settlement and Procedures Act of 1974;
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A;
- Data Privacy - Minnesota Statutes Chapter 13 and 462A.065;
- Minnesota Mortgage Originator and Servicer Licensing - Minnesota Statutes Chapters 58 and 58A;
- Annual Income - 24 CFR Part 5.609
- Lead Based Paint Guidelines - 24 CFR Part 35;

- Home Investment Partnership Program - 24 CFR Part 92; and,
- Any existing local Housing Quality Standards.

In addition to the above covenants, ~~Seller~~Lender must:

- Be the sole owner and holder of the loan with the right to assign it to Minnesota Housing;
- Assign the loan free and clear of all encumbrances;
- Warrant that:
  - ◊ The property is undamaged by fire, windstorm or other hazard;
  - ◊ The first mortgage loan is current on monthly installments of principal, interest, taxes, assessments and hazard insurance premiums at the time the first mortgage is purchased by Minnesota Housing's Master Servicer and the HOME HELP loan is purchased by Minnesota Housing;
  - ◊ Borrower's cash investment has been paid from Borrower's own verified assets;
  - ◊ Borrower's assets after closing are limited to the greater of ~~6~~ 8 months first mortgage PITI or $~~5~~8,000;
  - ◊ HOME HELP funds received by Borrower have been applied to the transaction and are verified on the HUD-1 Settlement Statement;
  - ◊ ~~Seller~~Lender has not advanced funds, or solicited or induced funds to be advanced by another, directly or indirectly for the payment of any amount required by the loan, except to the extent specifically provided by Minnesota Housing;
  - ◊ All settlement and closing costs paid or borne by either party to the transaction have been disclosed, itemized and clearly explained on a closing or settlement statement, a copy of which was furnished to the Borrower and the Property ~~Seller~~Lender prior to closing;
  - ◊ All underwriting requirements of the underlying loan product have been satisfied;
  - ◊ All insurer/guarantor loan requirements have been met;
  - ◊ The Borrowers are First-Time Homebuyers; and,
  - ~~◊~~
  - ◊ The ~~seller~~Lender has examined applicable federal income tax returns or other appropriate documentation to verify First-Time Homebuyer status.
  - ◊ ~~Seller~~Lender has no knowledge of any circumstances or conditions with respect to the mortgage or mortgaged property or Borrower's credit standing that can:
    - o Be expected to cause prudent investors in the secondary market to regard the mortgage as an unacceptable investment;
    - o Cause the mortgage to become delinquent or to adversely affect the value or marketability of the mortgage.

- The person who signs the ~~Seller~~Lender Representations and Warranties on behalf of the ~~Seller~~Lender is fully conversant with Minnesota Housing program requirements, the underlying loan product and insurer/guarantor requirements and has the authority to legally bind the ~~Seller~~Lender; and ~~Seller~~Lender has complied with all terms, conditions and requirements of the Agreement and this Procedural Manual unless those terms, conditions and requirements have been specifically waived by Minnesota Housing in writing.

1.08 ~~Seller~~Lender Compensation

~~Seller~~Lender compensation is limited to a per loan fee of $150.00 which is charged to the Borrower as a part of the loan closing costs.

Chapter 2

Chapter 2 - Borrower Eligibility

2.01 Borrower

One individual or multiple individuals are eligible to be a Borrower(s) only if such individual or individuals:

- Qualify for a first mortgage loan through the ~~CASA~~ MMP program; and,
- Meet all requirements of this Procedural Manual.

As a part of the application, Borrower must disclose whether they currently:

- Receive a rental subsidy under the HUD Section 8 Program; or,
- Reside in public housing.

2.02 Borrower Age

Borrower must be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction.

2.03 Borrower ~~Minimum Contribution / Asset Limit~~Eligibility Criteria

Minimum Contribution / Asset Limit

- The Borrower is required to contribute a minimum of the lesser of 1% of the purchase price or $1,000 toward transaction costs.~~The Borrower is required to contribute a minimum of $1,000 toward transaction costs.~~ The ~~$1,000~~ minimum cash investment must come from the Borrowers' assets and may not be a gift, grant, loan or sweat equity contribution.
- The Borrower'~~(s)~~ liquid assets after closing must be greater than the lesser of two months' first mortgage principal, interest, taxes, and insurance or $500.
- The Borrower'~~(s)~~ liquid assets after closing are limited to the greater of eight months' first mortgage principal, interest, taxes, and insurance or $8,000.
- ~~Borrower(s) liquid assets after closing are limited to the greater of six months first mortgage principal, interest, taxes, and insurance or $5,000.~~

Minimum Credit Score:

- If the Borrower~~(s)~~ ha~~ve~~s a credit score, the credit score the Lender's underwriter uses to underwrite the loan must be at least 620;

- If the ~~no~~ Borrower~~(s)~~ does not have a credit score~~s~~, alternative credit suggesting a prudent underwriting risk must be developed; and~~,~~
- If there is more than one Borrower, and one Borrower has a credit score of at least 620 but ~~the~~the other Borrower~~(s)~~ does not have a credit score, t~~T~~he underlying loan product guidelines determine if alternative credit must be developed for the Borrower~~(s)~~ without a credit score.

Qualifying Ratio

The Borrower'~~(s)~~ Debt Ratio must be less than 50%.

2.04 Co-Signers

Non occupant co-signers are not allowed on HOME HELP loans. All Borrowers must occupy the property as their primary residence.

2.05 Unauthorized Compensation

Borrower shall not receive kickbacks, rebates, discounts, and/or compensation from any subcontractor, realtor or Property ~~Seller~~Seller.

2.06 Acceptable Forms of Homeownership

Under the HOME HELP Program the Borrower must hold fee simple title, or a 99-year leasehold estate subject to a Community Land Trust.

Note: Life Estates are NOT an acceptable form of ownership.

2.07 Prior Homeownership - Three-Year Requirement – HOME HELP Loans

Borrower may not have had an ownership interest in a Principal Residence at any time during the three year period ending on the date of execution of the mortgage.

- Present ownership interest includes:
  - ◊ A fee simple interest;
  - ◊ An individual tenancy, joint tenancy, a tenancy in common, or a tenancy by the entirety;
  - ◊ The interest of a tenant shareholder in a cooperative;
  - ◊ A life estate;
  - ◊ A leasehold estate or a leasehold estate subject to a Community Land Trust;

- ◊ A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;
- ◊ An interest held in trust for the Borrower (whether or not created by the Borrower) that would constitute a present ownership interest if held directly by the Borrower;
- ◊ Vendee interest in a contract for deed; or
- ◊ An ownership interest in a mobile home that is taxed as real estate.

- Interests that do not constitute a present ownership interest include:
  - ◊ Remainderman interest;
  - ◊ An ordinary lease with or without an option to purchase;
  - ◊ A mere expectancy to inherit an interest in a Principal Residence;
  - ◊ The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;
  - ◊ An interest in a non-Principal Residence during the previous three years (e.g., a recreational or~~/~~ seasonal home)~~An interest in other than a Principal Residence during the previous three years (e.g. recreational/seasonal home)~~; or
  - ◊ An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property; and,
  - ◊ Pre-existing interest in the subject property.
- Required Documentation - Tax Returns:
  ~~◊~~ To verify that the Borrower meets the three-year requirement, the ~~Seller~~ Lender must obtain copies of signed federal income tax returns filed for the three years immediately preceding execution of the mortgage documents (loan closing). The Lender should examine the tax returns and the credit report for any evidence that the Borrower may have owned a Principal Residence in the past three years. ~~The Seller should examine the tax returns and the credit report for any evidence that Borrower may have claimed deductions for property taxes or mortgage interest deductions on a Principal Residence.~~ The Borrower may also provide the ~~Seller~~ Lender with an affidavit that he/she was not required to file an Income Tax Return during one or all of the preceding 3 years. ~~See Chapter 7 – Documentation Requirements for acceptable alternative formats of federal income tax returns.~~
  ◊
- Special Documentation for Current Ownership:
  - ◊ A Borrower with a current ownership interest in a residence within the most recent three year period must be able to provide evidence (e.g. copy of rental agreement/lease) showing that they have not lived in the dwelling for the most recent three year period.

2.08 Principal Residence / Occupancy Requirement

Borrower(s) must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan.

2.09 Homebuyer Education

Qualified Homebuyer Education is required for Borrowers securing Minnesota Housing HOME HELP financing.[1]

The above noted requirement will be satisfied when at least one Borrower per household provides a certificate of completion.

2.10 Minnesota Housing HOME HELP Program Eligibility Income

Gross annual household income, as defined in 24 CFR 5.609, is the gross annual projected household income as of the date of the Borrower Application.

Borrower must have gross annual projected household income at or below 80% of the area median income adjusted for family size as determined by the Department of Housing and Urban Development (HUD). Income calculations will be conducted in accordance with 24 CFR 5.609 and be completed no earlier than 6 months prior to the purchase of the eligible property.

Income derived from certain assets must also be included in the income calculation (see link to Minnesota Housing Part 5 Income Determination on Minnesota Housing's HOME HELP Loan Program Forms page).

Note: When ~~CASA~~ MMP ~~or~~ and HOME HELP income limits differ, the lower limit must be applied. Program income limits are recited on Minnesota Housing's website.

~~2.11 Housing Ratios~~

~~Borrower must exceed a 25% housing ratio to qualify for HOME HELP assistance.~~

2.~~12~~11 Loans to Employees and Affiliated Parties

[1] Available courses are listed on the Homeownership Center website at: http://www.hocmn.org

Lender may make Minnesota Housing loans to their directors, officers, agents, consultants, employees and/or their families, elected or appointed officials of the State of Minnesota as well as to Minnesota Housing employees and/or their families who are not in a position to participate in a decision making process or gain inside information with regard to the loan. The Borrower must meet all eligibility criteria for the HOME HELP Program.

Chapter 3 - Property Eligibility

3.01 Eligible Properties

In order to qualify as an eligible property for a Minnesota Housing loan, the residence must:

- Be located in the State of Minnesota;
- Be a one-unit single-family residence, which includes:
  - ◊ An eligible Planned Unit Development (PUD) constructed no earlier than 1978;
  - ◊ An eligible condominium constructed no earlier than 1978; or,
  - ◊ A manufactured home permanently affixed to a foundation and taxed as real property.

In addition to meeting the eligibility criteria noted above, properties to be financed with the assistance provided by the HOME HELP Program must satisfy the following requirements:

- The property must meet local Housing Quality Standards (HQS) where such standards exist. If no local HQS exist; the property must meet HUD's HQS as outlined in 24 CFR 982.401. Houses constructed prior to 1978 must comply with HUD's lead requirements as set forth in 24 CFR 92.355. (See Minnesota Housing Website for guidance). Compliance with these requirements must be confirmed and documented with an inspection by a qualified inspector selected from Minnesota Housing's HOME HELP roster as shown on Minnesota Housing's website.
- If the Borrower is purchasing a property constructed prior to 1978, the Borrower must receive HUD lead paint disclosures in compliance with 24 CFR 92.355. Further, the Borrower must acknowledge receipt of those disclosures.
- Disclosure to the property ~~seller~~Lender of voluntary sale rights and the value of the property must be accomplished and acknowledged, to comply with HUD's Uniform Relocation Act (URA) requirements.
- If the property is within 3,000 feet of the end of a civil airport runway, or within 15,000 feet of a military airport runway, HUD Environmental Review guidelines apply and the lender must contact Minnesota Housing for additional information and conditions.
- Newly constructed single family units or existing units that have never been occupied are eligible for HOME HELP funding.

3.02 Manufactured Homes

Homes built to Federal Manufactured Home Construction Safety Standards, administered by HUD. The homes are built on wheeled chassis, which remain a basic structural element.

Manufactured/Mobile homes are acceptable only for government insured/guaranteed loan products if they meet the following requirements:

- Foundation: Permanently attached and anchored per manufacturer specifications to a basement, slab or footings to frost line;
- Wheels, axles and trailer hitches must be removed;
- Units must be assessed as real estate for property tax purposes; and,
- Units must meet the requirements of the underlying loan product and the applicable insurer/guarantor.

Note: When a HOME HELP program loan is used to provide assistance in the purchase of a manufactured home, the home must be connected to permanent utility hook-ups.

3.03 Condominium and Planned Unit Development Requirements

In addition to meeting all the requirements of the Minnesota Housing Mortgage Program Procedural Manual, Condominium units and units within a Planned Unit Development are restricted as follows:

- Condominium and Planned Unit Development units constructed prior to 1978 are not eligible.
- Condominium and Planned Unit Development units constructed after 1978 with common areas or accessory buildings that were constructed prior to 1978, are also ineligible.

3.04 Ineligible Properties

Properties not eligible for financing are as follows:

- Properties that are currently rented (does not apply if the subject property is the same property the Borrower(s) currently rent);
- Properties that have been rented or non-owner occupied within the last three (3) months (does not apply if the property has been vacant for the past three (3) months);
- Properties where a renter or non-owner occupant was forced to move in anticipation or receipt of HOME HELP assistance.
- Duplexes or other multi-unit properties;
- A unit in a Cooperative Corporation or a limited equity Cooperative Corporation;
- Recreational/seasonal home;

- Single-wide mobile/manufactured home even if permanently affixed to a foundation and taxed as real property;
- A property intended to be used as an investment property;
- Proposed construction;
- Manufactured / Mobile homes financed with a conventional loan product;
- A property where 15% or more of the total area of the property is used primarily in a trade or business in a manner which would permit the Borrower to take a deduction for any portion of the costs of the property for expenses incurred in connection with such trade or business use of the property on the Borrower's federal income tax return.~~A property where 15% or more of the total area, of the property is used primarily in a trade or business in a manner which would permit the Borrower to take a deduction for any portion of the costs of the property for expenses incurred in connection with such trade or business use of the property on the Borrower's federal income tax return.~~

~~Note: **If the home business is a daycare and more than 15% of the home is used for daycare, the property is ineligible.**~~

3.05 Acquisition Cost Limit

The Acquisition Cost of the property that is being financed in part by HOME HELP proceeds may not exceed 95% of the HUD area median purchase price. When ~~CASA~~ MMP ~~or~~ and HOME HELP acquisition cost limits differ, the lower limit must be applied.

Note: Program acquisition cost limits are recited on Minnesota Housing's website.

Chapter 4

Chapter 4 - Loan Eligibility

4.01 Eligible Loans

Minnesota Housing purchases closed loans from ~~Seller~~Lenders under the HOME HELP Program if the loan satisfies all the requirements for:

- Funding with federal HOME dollars; and,
- This Procedural Manual.

4.02 Interest Rate / Amortization Requirements

HOME HELP is an interest-free, deferred loan.

4.03 Loan Amount

The maximum loan amount available through the HOME HELP Program is $10,000. The loan amount must be calculated using the calculator worksheet available on Minnesota Housing's website.~~The loan amount available through the HOME HELP Program is $10,000.~~

4.04 Mortgage Term

The HOME HELP ~~assistance~~ loan is coterminous with the first mortgage.

The principal amount of the HOME HELP loan~~, as described in the Mortgage Note, of the loan for six (6) years after the date of the Mortgage Note~~ shall be one hundred percent (100%) of the amount borrowed for six (6) years after the date of the Mortgage Note. The principal amount shall be reduced to fifty percent (50%) of the amount borrowed after the sixth anniversary of the Mortgage Note. The principal amount must immediately be paid in full if the Borrower is in default under the HOME HELP Mortgage or HOME HELP Mortgage Note.~~The HOME HELP assistance loan is coterminous with the first mortgage.~~

~~The principal amount, as described in the Mortgage Note, of the loan for six (6) years after the date of the Mortgage Note shall be one hundred percent (100%) of the amount borrowed. The principal amount shall be reduced to thirty percent (30%) of the amount borrowed after the sixth anniversary of the Mortgage Note. The principal amount must immediately be paid in full if the Borrower is in default under the HOME HELP Mortgage or HOME HELP Mortgage Note.~~

4.05 Environmental Standards

Coastal Barrier

Pursuant to the Coastal Barrier Resources Act, as amended by the Coastal Barrier Improvement Act of 1990 (16 U.S.C. 3501) HUD assistance may not be used for most activities proposed in the Coastal Barrier Resources System. Therefore, the Minnesota Housing HOME HELP Program may not be used in conjunction with any loan for the purchase/construction of a primary residence located in the area defined by the map on the website.

Runway Clear Zones

Minnesota Housing, pursuant to 24 CFR, Part 51 requires the ~~Seller~~Lender to procure a written statement from the Borrower acknowledging receipt of disclosure of the following:

- That the property is located in a Runway Clear Zone;
- The implications of such a location; and,
- That there is a possibility that the property may be acquired by the airport operator at a later date.

4.06 Junior Liens/Community Seconds

- Additional HOME, ADDI or HAF funds may not be used in conjunction with HOME HELP funds.

4.07 Repurchase of Loans

Minnesota Housing may, at its option tender any loans to the ~~Seller~~Lender for repurchase if:

- Any representation or warranty of the ~~Seller~~Lender or the Borrower with respect to the loan is determined by Minnesota Housing to be materially incorrect;
- The loan is not in compliance with any term or condition set forth in the Agreement and this Procedural Manual.

Upon written notice of repurchase by Minnesota Housing, ~~Seller~~Lender has ten (10) business days to submit payment to Minnesota Housing for the unpaid principal balance, the ~~lender~~ Lender premium and any other expenses incurred, including legal fees and costs. This requirement applies if the loan is current, delinquent, or in any stage of foreclosure~~ or post foreclosure~~. Failure to comply with this requirement may result in the termination, suspension, or otherwise limit the ~~Seller~~Lender's Agreement with Minnesota Housing.

Chapter 5 – Funding Request / Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program and/or initiative during any business day as listed:

- A maximum dollar amount of money a ~~Seller~~Lender may request; or
- A maximum number of Individual Funding Requests from any one ~~Seller~~Lender.

~~Seller~~Lender may request funds on a first-come, first-served basis. Fund balances are available on the Minnesota Housing website.

5.01 Requesting HOME HELP Funds

Once the ~~Seller~~Lender has determined that a Borrower meets the loan requirements, funds are requested by submitting all necessary documentation to Minnesota Housing.

Funding Requests that meet the eligibility requirements in this Procedural Manual will be authorized.

Funding Requests associated with ~~CASA~~ MMP loans are valid until the ~~CASA~~ MMP loan has been either purchased or cancelled.

5.02 Modifying a Funding Request

- Any change to a funding request must meet eligibility requirements and must be submitted to Minnesota Housing for approval.
- Any qualifying funding request change will not alter the original commitment period of the associated ~~CASA~~ MMP loan or HOME HELP loan.
- A change of Borrower or property on the Funding Request will not be allowed on a ~~CASA~~ MMP loan or HOME HELP loan.

5.03 Canceling a Funding Request

Minnesota Housing requires ~~Seller~~Lender to cancel any Funding Request that will not be used for the specified loan.

5.04 Transfer of Individual Funding Requests

~~Seller~~Lender may not transfer funding requests to another ~~Seller~~Lender without prior written approval by Minnesota Housing. Minnesota Housing may transfer a funding request under the following conditions:

- ~~Seller~~Lender requests in writing a transfer of the funding request to a different ~~Seller~~Lender and documents the reason;
- New ~~Seller~~Lender must be an approved participant in both the ~~CASA~~ MMP and HOME HELP Programs; and,
- Original ~~Seller~~Lender must transfer and/or assign case documents to the new ~~Seller~~Lender.

5.05 Duplicate Funding Requests

While using the ~~CASA~~MMP Program, the ~~seller~~Lender may not cancel a HOME HELP funding request and subsequently request funds for the same Borrower/property.

5.06 Minnesota Housing Loan Purchase / Disbursement of Funds

Minnesota Housing will purchase HOME HELP loans which meet eligibility requirements, as outlined in Section 6.02, Monday through Thursday, except for State observed holidays. The disbursement of funds will occur within approximately six working days.

Loans will be purchased based on stated terms for each individual loan.

5.07 Loan Purchase Corrections

If it is determined that an adjustment to the purchase price of any purchased ~~CASA~~ MMP loan or HOME HELP loan is necessary, Minnesota Housing will either invoice the ~~Seller~~Lender for any funds to be returned or disburse additional funds to the ~~Seller~~Lender.

Chapter 6 – Documentation Requirements

6.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- Loans must be closed, and disbursed, prior to requesting Minnesota Housing loan approval.
- ~~Seller~~Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan.
- All loan documents must be industry standard and meet the requirements of Minnesota Housing, the underlying loan product and the insurer/guarantor, as applicable.
- All loan documents must be complete, accurate and reviewed by the ~~Seller~~Lender at the various and appropriate stages of the loan.
- Minnesota Housing or industry-standard forms may not be altered in any way other than to add a company name and logo.
- The loan must be originated and closed in, or assigned to, the name of the ~~Seller~~Lender that is a party to the Agreement and that has received an Individual Commitment of Funds from Minnesota Housing.
- All HOME HELP mortgage assignments must run directly from the ~~Seller~~Lender to Minnesota Housing.
- ~~Seller~~Lender must submit the mortgage and assignment to the appropriate county office for recording prior to requesting loan approval from Minnesota Housing.
- All assignments must use the Minnesota Uniform Conveyance Blank.
- All HOME HELP Mortgage Notes must be endorsed to Minnesota Housing.

6.02 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the HOME HELP Loan Transmittal Form detailing specific documentation/delivery requirements. ~~Seller~~Lender must fully execute and deliver documents within designated timeframes.

Note: All required documents must be delivered to Minnesota Housing within 10 days of loan closing as stated on the Loan Transmittal. Upon receipt and review of the HOME HELP Loan Transmittal and all required supporting documents, Minnesota Housing will notify the Lender of any omissions or deficiencies that prohibit loan purchase and disbursement of funds. All omissions and deficiencies must be cured within 180 days of loan closing. Minnesota Housing may, at its sole discretion, decline to purchase the loan if the

omissions and deficiencies are not cured within 180 days of loan closing.

Documentation not delivered to the Servicer within the specified time frames, may result, at Minnesota Housing's discretion, in the ~~Seller~~Lender being required to repurchase the loan, or any such remedy as identified in this Procedural Manual.

6.03 Records Retention

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

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

Chapter 7 – Servicing

7.01 Servicing

- Each Lender will be assigned a designated servicer by Minnesota Housing.

7.02 Delivery of Loans to Servicer

Administrator must forward the loan, along with the required documentation in the prescribed order and format, to the assigned Servicer by mail within ten (10) calendar days of closing the loan.

7.03 Due on Sale

The loan is due upon sale of or transfer of title to the property or if the property is no longer the Borrower's Principal Residence.

7.04 Subordinations

Minnesota Housing allows subordinations only under limited circumstances and only with prior written approval. During the term of the loan, the Borrower's ability to use any equity in the property may be severely restricted.

7.05 Hardship Policy

It is the policy of the HOME HELP Program that if the homebuyer sells the property, either voluntarily or involuntarily, such as in a foreclosure, s/he must immediately repay the balance owing on the loan to Minnesota Housing, but in no case will s/he be required to repay more than the lesser of the balance owing, or the amount of sales proceeds remaining if any after payment of superior liens and any closing costs.

Appendix

Definitions

All terms used in the Procedural Manual use mortgage industry standard definitions except for the following:

Term	Definition
Acquisition Cost	The cost of acquiring a completed residential unit.
Coastal Barrier	An undeveloped coastal area designated for inclusion in the Coastal Barrier Resources System by the Coastal Barrier Resources Act (CBRA), Public Law 97-348 (96 Stat. 1653; 16 U.S.C. 3501 et seq.), enacted October 18, 1982.
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 2.07 of this Procedural Manual.
Housing Quality Standards (HQS)	The minimum quality standards for HUD-assisted housing. (24 CFR 982.401) or a local government housing quality standard.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Qualified Homebuyer Training	Qualified Homebuyer Training is homebuyer training completed in a classroom setting by organizations that have had staff trained under HomeStretch or NeighborWorks America.
Remainderman	An individual who has a future interest in the estate, either as a contingent interest when a life tenant surrenders a claim to the estate, or a vested interest that becomes effective at a specified future date.
Runway Clear Zone	Designated areas at the end of airport runways where the greatest number of airplane accidents occur.

Forms List

HOME HELP Commitment Form
HOME HELP Income Eligibility Calculation Worksheet
HOME HELP Homebuyer Written Agreement
HOME HELP Mortgage
HOME HELP Note
Home Help Notice to Buyers in Runway Clear Zone
HOME HELP Pre-purchase Loan Transmittal
HOME HELP Uniform Relocation Act Notification to ~~Seller~~Seller
HOME HELP Vacant Foreclosed Properties Form

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Minnesota Housing Finance Agency

AGENDA ITEM: 10.A
MINNESOTA HOUSING BOARD MEETING
July 26, 2012

ITEM: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2012

CONTACT: Bill Kapphahn, 651-215-5972
William.Kapphahn@state.mn.us

Don Wyszynski, 651-296-8207
Don.Wyszynski@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency's board-approved Debt Management Policy calls for the ongoing review and management of swap transactions including regular reporting to the board. This reporting is accomplished though the Semi-annual Variable Rate Debt and Swap Performance Report.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Finance New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☑ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☐ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Report Highlights
- Report: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2012

- All of the Agency's swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.

- Basis Risk: During the period January 2012 to July 2012, the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation. Staff continues to expect that, over time, the two rates will track each other as originally anticipated.

- Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, decreased from $39.8 million on January 1, 2012 to $39.6 million on July 1, 2012. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts' market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events. During the six months ending July 1, 2012, the Royal Bank of Canada's long-term credit rating was reduced to "Aa3/AA-" from "Aa1/AA-" and The Bank of New York Mellon's long-term credit rating was reduced from "Aaa/AA-" to "Aa1/AA-." On March 28, 2012, the Agency substituted The Bank of New York Mellon for UBS AG as swap counterparty on six swap agreements whose notional amount totaled $131.71 million. At the time of the substitution, the UBS AG long-term credit rating was "Aa3/A" and The Bank of New York Mellon's long-term credit rating was "Aa1/AA-." There were no financial statement consequences from the substitution.

- Liquidity Risk: During the six months ending July 1, 2012, Lloyds TSB Bank long-term credit rating declined to "A2/A" from "A1/A." The short-term credit ratings for all three liquidity providers were unchanged. The Lloyds TSB Bank liquidity facilities, scheduled to expire on July 23rd and August 4th of this year, were replaced with facilities from Royal Bank of Canada and Wells Fargo Bank effective July 18, 2012. Royal Bank of Canada and Wells Fargo Bank are both rated Aa3/AA- with the highest available short-term credit ratings.

- Long-term Debt, Fixed vs. Variable Graph: Total outstanding variable rate debt declined to 17% of total long-term debt at July 1, 2012 compared to 19% at July 1, 2011. This is due mainly to the issuance of additional fixed rate debt. No variable rate debt has been issued during the current fiscal year.

Minnesota Housing
Finance Agency

Semiannual Variable-Rate Debt and Swap Performance Report

July 01, 2012

Minnesota Housing
Finance Agency

Semiannual Variable-Rate Debt and Swap Performance Report

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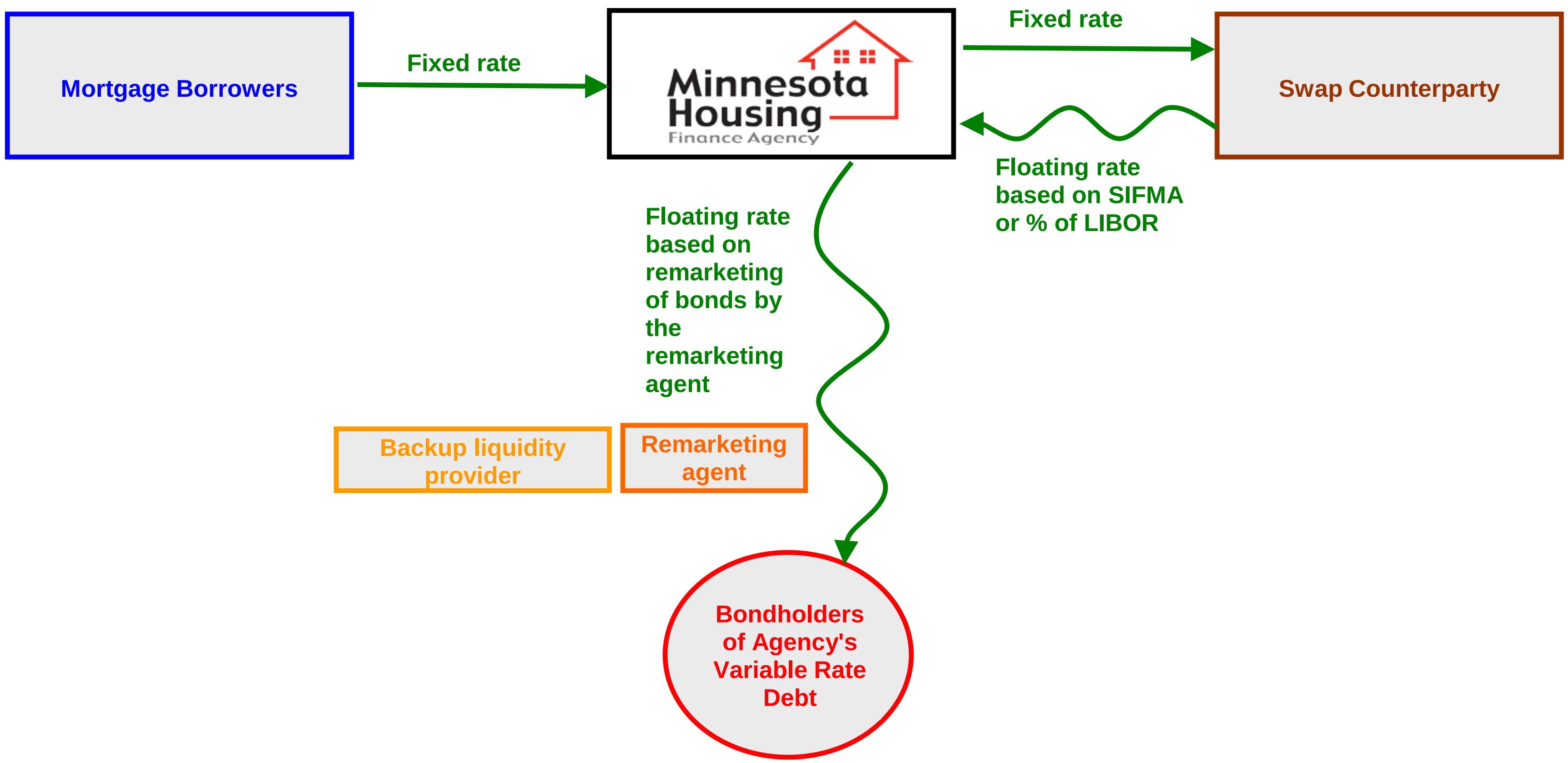
Floating-to-Fixed Interest Rate Swap Structure

Overview



Minnesota Housing Finance Agency

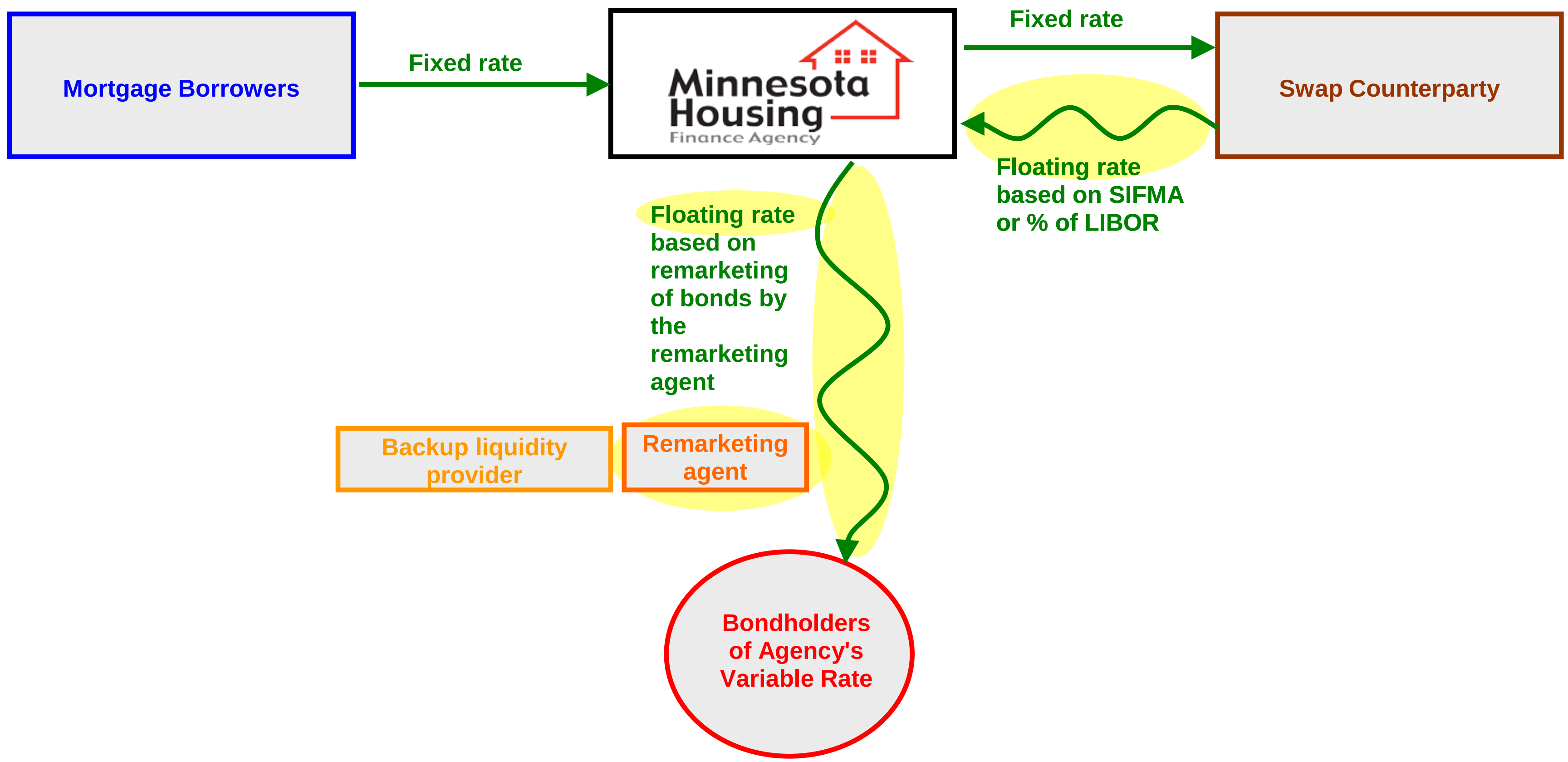
Overview of Swaps

July 01, 2012

Bond Series	Issue Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2003 B	07/23/2003	$ 25,000,000	$ 25,000,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2003 J	10/15/2003	25,000,000	19,425,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2004 G	07/01/2204	50,000,000	28,230,000	Royal Bank of Canada	64% of LIBOR + 26 basis points
RHFB 2005 C	03/02/2005	25,000,000	17,315,000	The Bank of New York Mellon	64% of LIBOR + 28 basis points
RHFB 2005 I	06/02/2005	40,000,000	27,635,000	The Bank of New York Mellon	64% of LIBOR + 28 basis points
RHFB 2005 M	08/04/2005	60,000,000	40,305,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2006 C	03/21/2006	28,335,000	22,775,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2007 E (Taxable)	03/07/2007	25,000,000	11,560,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 J (Taxable)	05/17/2007	37,500,000	17,695,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 S	12/19/2007	18,975,000	18,975,000	The Bank of New York Mellon	100% of SIFMA Index Rate + 6 basis points
RHFB 2007 T (Taxable)	12/19/2007	37,160,000	24,980,000	The Bank of New York Mellon	One-month LIBOR
RHFB 2008 C	08/07/2008	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 C	02/12/2009	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 F	12/01/2009	34,120,000	25,010,000	Royal Bank of Canada	100% of SIFMA + 8 basis points
	Totals	**$ 486,090,000**	**$ 358,905,000**		.

Floating-to-Fixed Interest Rate Swap Structure

Basis Risk

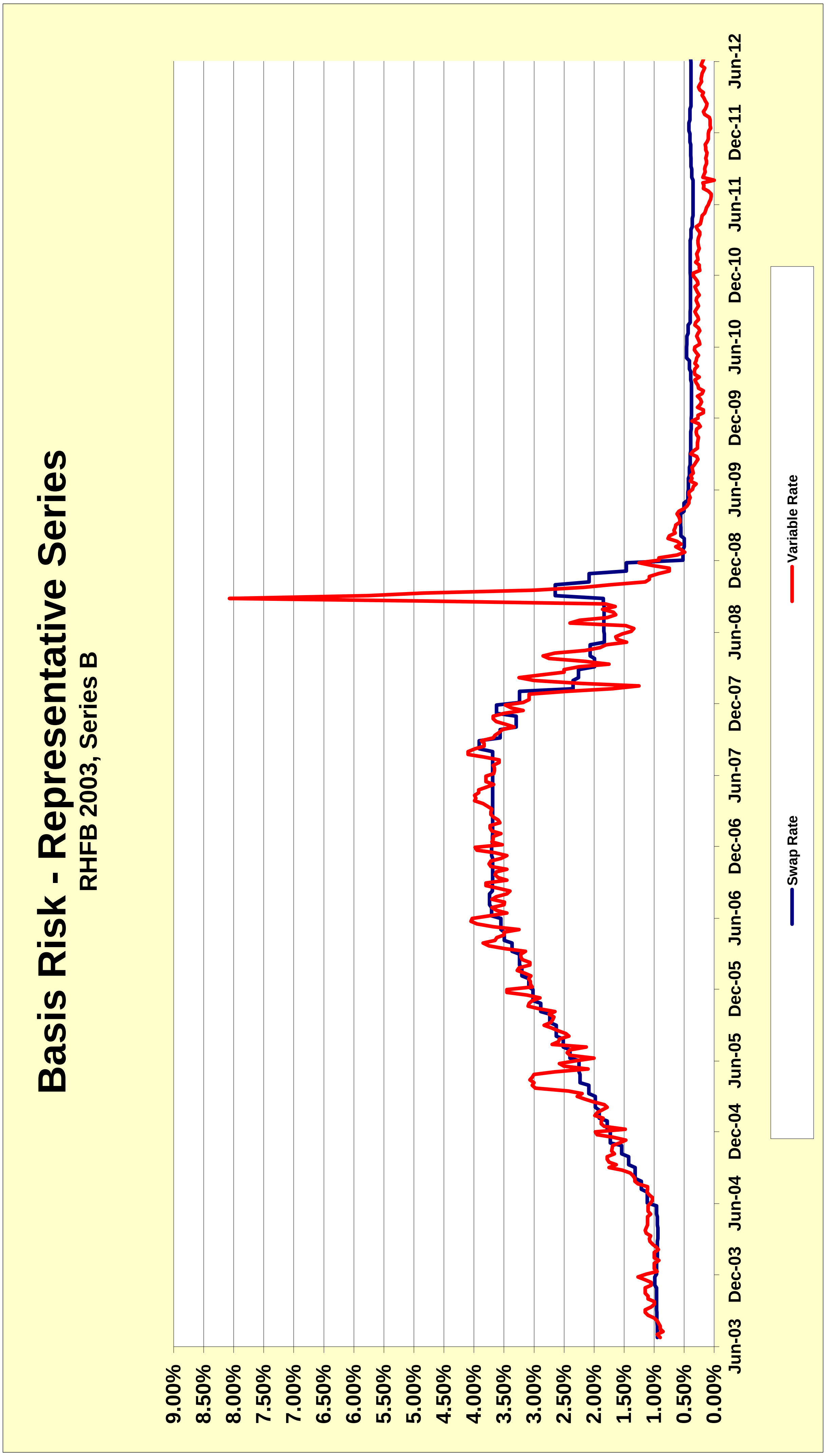


Basis Risk

July 01, 2012

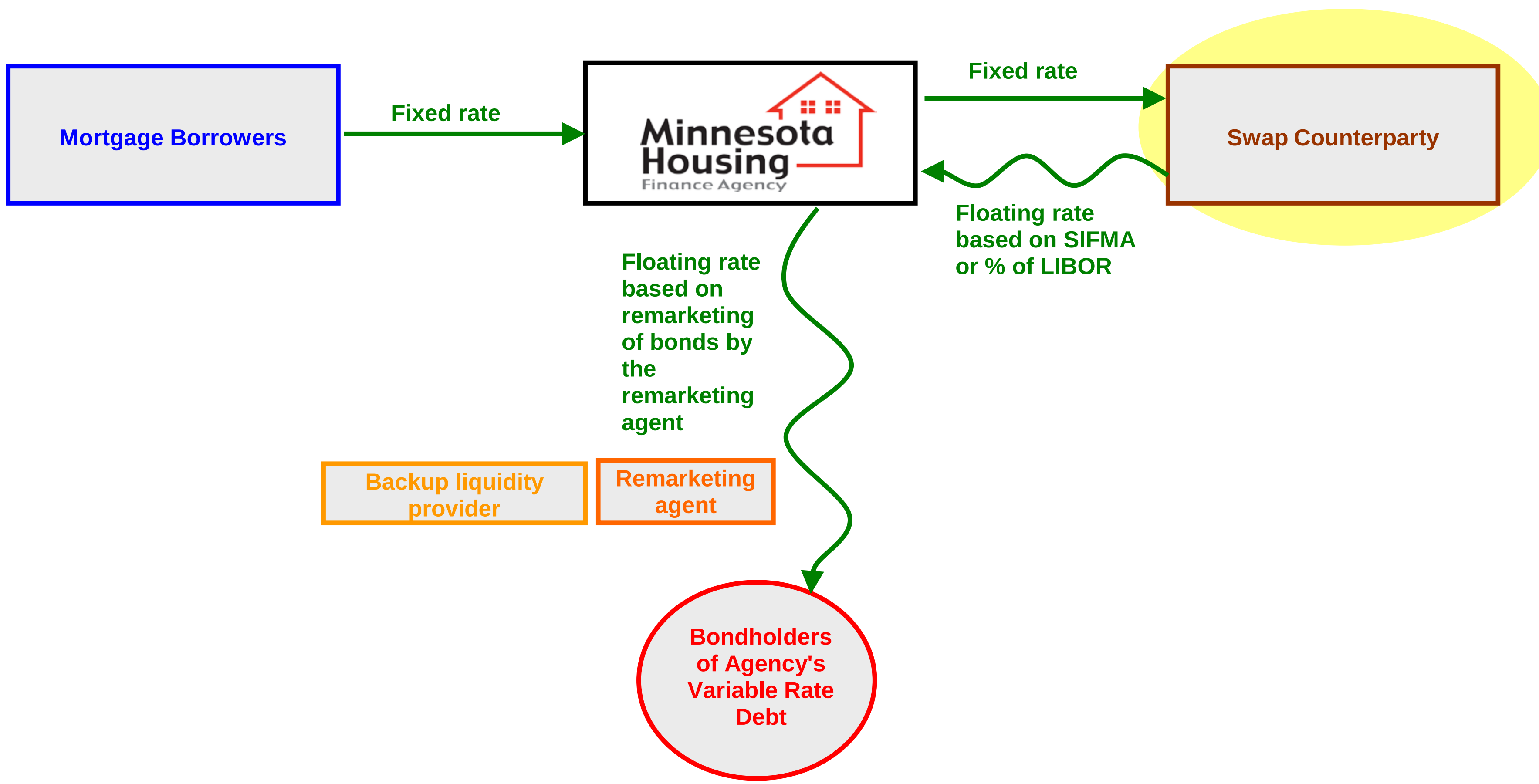
Bond Series	Issue Date	VRDO's and Swaps Outstanding	Net Variable Interest Paid (Received) Basis Risk	Contractual Swap Fixed Rate	Effective Swap Fixed Rate	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2003 B	07/23/2003	$ 25,000,000	$ **(56,011)**	3.532%	**3.507%**	99.29%
RHFB 2003 J	10/15/2003	19,425,000	**(37,832)**	4.183%	**4.164%**	99.55%
RHFB 2004 G	07/22/2004	28,230,000	**(92,250)**	4.165%	**4.138%**	99.35%
RHFB 2005 C	03/02/2005	17,315,000	**(99,837)**	3.587%	**3.525%**	98.27%
RHFB 2005 I	06/02/2005	27,635,000	**(140,695)**	3.570%	**3.513%**	98.40%
RHFB 2005 M	08/04/2005	40,305,000	**(336,341)**	3.373%	**3.279%**	97.21%
RHFB 2006 C	03/21/2006	22,775,000	**(155,114)**	3.788%	**3.693%**	97.49%
RHFB 2007 E (Taxable)	03/07/2007	11,560,000	**125,133**	5.738%	**5.846%**	101.88%
RHFB 2007 J (Taxable)	05/17/2007	17,695,000	**197,945**	5.665%	**5.783%**	102.08%
RHFB 2007 S	12/19/2007	18,975,000	**(38,420)**	4.340%	**4.295%**	98.96%
RHFB 2007 T (Taxable)	12/19/2007	24,980,000	**320,699**	4.538%	**4.746%**	104.58%
RHFB 2008 C	08/07/2008	40,000,000	**(146,950)**	4.120%	**4.026%**	97.72%
RHFB 2009 C	02/12/2009	40,000,000	**(360,618)**	4.215%	**3.949%**	93.69%
RHFB 2009 F	12/01/2009	25,010,000	**(51,350)**	2.365%	**2.301%**	97.29%
	Totals	**$ 358,905,000**	**$ (871,641) ***			

* The cumulative net of total variable interest paid on all VRDO's (**$39,292,717**) and all variable interest received from the swap counterparties (**$40,164,358**).


Basis Risk - Representative Series
RHFB 2003, Series B
9.00%
8.50%
8.00%
7.50%
7.00%
6.50%
6.00%
5.50%
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Jun-03
Dec-03
Jun-04
Dec-04
Jun-05
Dec-05
Jun-06
Dec-06
Jun-07
Dec-07
Jun-08
Dec-08
Jun-09
Dec-09
Jun-10
Dec-10
Jun-11
Dec-11
Jun-12
Swap Rate
Variable Rate

Floating-to-Fixed Interest Rate Swap Structure

Counterparty / Termination Risk



Minnesota Housing Finance Agency

Counterparty / Termination Risk

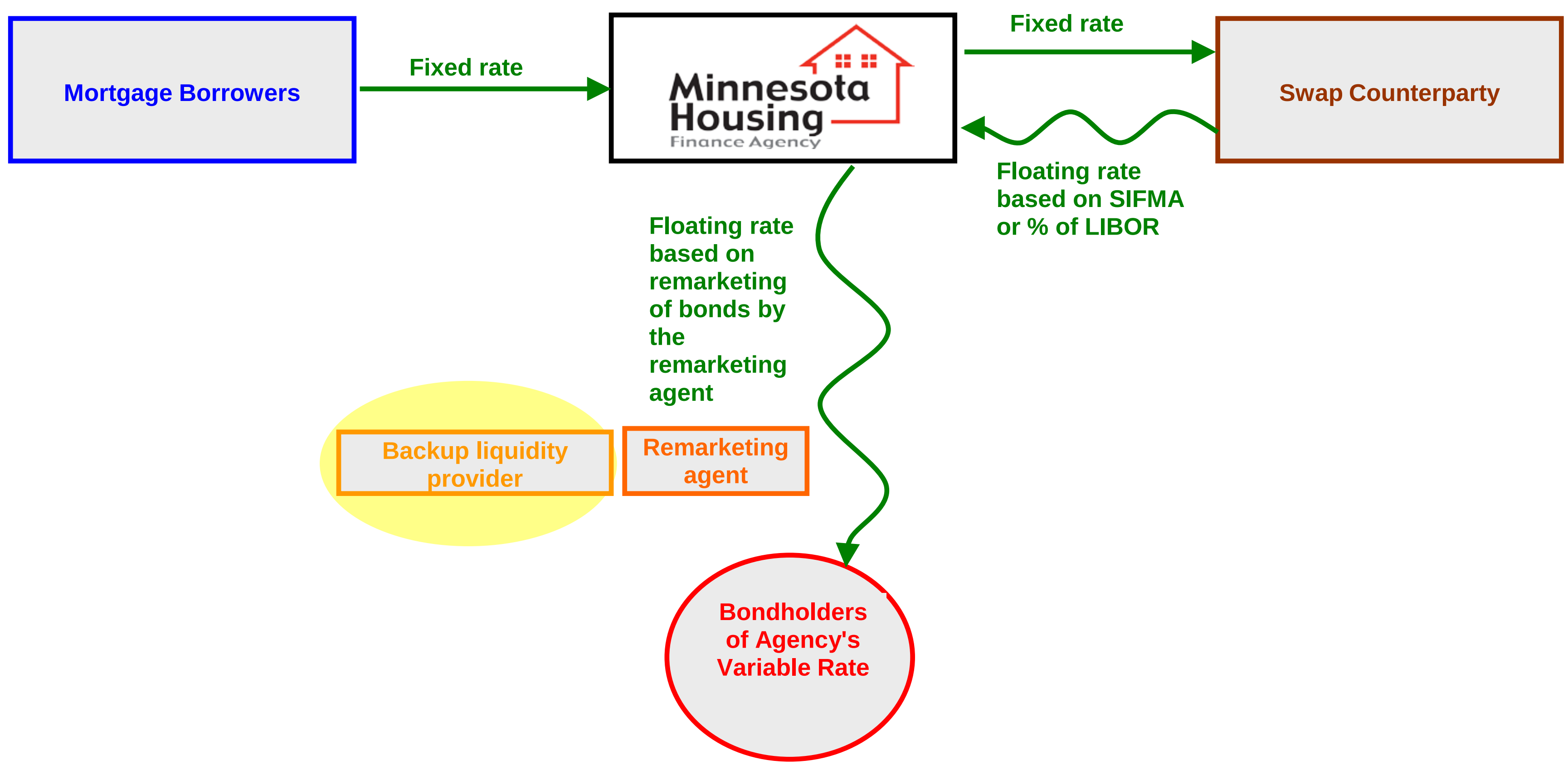
July 01, 2012

Bond Series	Counterparty	Long-term Credit Rating at Inception	Long-term Credit rating	Long-term Credit Outlook	Notional Amount Outstanding	Swap Maturity	Swap Average life at 100% PSA (years)	Swap Fixed Rate	Market Value*
RHFB 2003 B	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Negative	$ 25,000,000	01/01/2033	21	3.532%	$ (1,817,330)
RHFB 2003 J	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Negative	19,425,000	07/01/2033	14.3	4.183%	(2,422,249)
RHFB 2005 C	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Negative	17,315,000	01/01/2035	9.2	3.587%	(1,097,474)
RHFB 2005 I	The Bank of New York Mellon	Aaa/AA	Aa1/AA-	Stable/Negative	27,635,000	01/01/2036	9.2	3.570%	(2,179,003)
RHFB 2005 M	The Bank of New York Mellon	Aaa/AA	Aa1/AA-	Stable/Negative	40,305,000	01/01/2036	8.4	3.373%	(2,999,238)
RHFB 2006 C	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Negative	22,775,000	01/01/2037	10.6	3.788%	(2,203,569)
RHFB 2007 S	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Negative	18,975,000	07/01/2038	27.4	4.340%	(2,079,527)
RHFB 2007 T	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Negative	24,980,000	07/01/2038	11.8	4.538%	(3,048,156)
	Total The Bank of New York Mellon				**196,410,000**				**(17,846,545)**
RHFB 2004 G	Royal Bank of Canada	Aa2/AA-	Aa3/AA-	Stable/Stable	28,230,000	01/01/2032	11.3	4.165%	(3,026,509)
RHFB 2007 E	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	11,560,000	07/01/2038	12	5.738%	(1,893,703)
RHFB 2007 J	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	17,695,000	07/01/2038	11.8	5.665%	(2,968,019)
RHFB 2008 C	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	40,000,000	07/01/2048	20.6	4.120%	(5,566,539)
RHFB 2009 C	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	40,000,000	07/01/2039	18.9	4.215%	(7,166,282)
RHFB 2009 F	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	25,010,000	07/01/2039	4.2	2.365%	(1,166,867)
	Total Royal Bank of Canada				**162,495,000**				**(21,787,918)**
	Total All Swaps				**$ 358,905,000**				**$ (39,634,463)**

* A positive market value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination. Valuations are provided by DerivActiv.

Floating-to-Fixed Interest Rate Swap Structure

Liquidity Risk



Minnesota Housing Finance Agency

Liquidity Risk

July 01, 2012

Bond Series	Current Liquidity Provider	Long-term Credit Rating	Long-term Credit Outlook	Short-term Credit Rating	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2003 B	Lloyds TSB Bank[1]	A2/A	Negative/Stable	P-1/A-1	$ 25,000,000	01/01/2033	07/23/2012	0.110%	0.300% [2]
RHFB 2003 J	Lloyds TSB Bank[1]	A2/A	Negative/Stable	P-1/A-1	19,425,000	07/01/2033	07/23/2012	0.110%	0.300% [2]
RHFB 2004 G	Lloyds TSB Bank[1]	A2/A	Negative/Stable	P-1/A-1	28,230,000	01/01/2032	07/23/2012	0.110%	0.195%
RHFB 2005 C	Lloyds TSB Bank[1]	A2/A	Negative/Stable	P-1/A-1	17,315,000	01/01/2035	07/23/2012	0.110%	0.195%
RHFB 2005 I	Lloyds TSB Bank[1]	A2/A	Negative/Stable	P-1/A-1	27,635,000	01/01/2036	07/23/2012	0.110%	0.195%
RHFB 2005 M	Lloyds TSB Bank[3]	A2/A	Negative/Stable	P-1/A-1	40,305,000	01/01/2036	08/04/2012	0.110%	0.195%
	Lloyd's TSB Bank subtotal				**157,910,000**				
RHFB 2006 C	State Street Bank	Aa2/AA-	Stable/Negative	P-1/A-1+	22,775,000	01/01/2037	03/21/2013	0.092%	0.092%
RHFB 2007 E	State Street Bank	Aa2/AA-	Stable/Negative	P-1/A-1+	11,560,000	07/01/2038	03/21/2013	0.092%	0.092%
RHFB 2007 J	State Street Bank	Aa2/AA-	Stable/Negative	P-1/A-1+	17,695,000	07/01/2038	03/21/2013	0.092%	0.092%
RHFB 2007 S	State Street Bank	Aa2/AA-	Stable/Negative	P-1/A-1+	18,975,000	07/01/2038	03/21/2013	0.092%	0.092%
RHFB 2007 T	State Street Bank	Aa2/AA-	Stable/Negative	P-1/A-1+	24,980,000	07/01/2048	03/21/2013	0.092%	0.092%
	State Street Bank subtotal				**95,985,000**				
RHFB 2008 C	FHLB - Des Moines[4]	Aaa/AA+	Negative/Negative	P-1/A-1+	40,000,000	07/01/2048	08/07/2015	0.250%	0.250%
RHFB 2009 C	FHLB - Des Moines[4]	Aaa/AA+	Negative/Negative	P-1/A-1+	40,000,000	07/01/2036	02/12/2016	0.250%	0.250%
RHFB 2009 F	FHLB - Des Moines[4]	Aaa/AA+	Negative/Negative	P-1/A-1+	25,010,000	07/01/2031	12/01/2016	0.250%	0.250%
	FHLB - Des Moines subtotal				**105,010,000**				
	Total All Liquidity Providers				**$358,905,000**				

[1]Replacement liquidity provided by Royal Bank of Canada effective 07/18/.2012 for three years at .650% annual fee.
[2]Original liquidity provider was Wells Fargo Bank, NA
[3]Replacement liquidity provided by Wells Fargo effective 07/18/.2012 for three years at .685% annual fee.
[4]Federal Home Loan Bank of Des Moines

Minnesota Housing Finance Agency

LIQUIDITY RENEWAL REQUIREMENTS

July 01, 2012

Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 07/01/12	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2003 B	Lloyds TSB Bank	01/01/2033	01/01/2022	07/23/2012	25,000,000	25,000,000	25,000,000	15,545,000	BNY[1]
2003 J	Lloyds TSB Bank	07/01/2033	01/01/2023	07/23/2012	25,000,000	19,425,000	19,425,000	12,740,000	BNY[1]
2004 G	Lloyds TSB Bank	01/01/2032	07/01/2016	07/23/2012	50,000,000	28,230,000	28,230,000	28,230,000	RBC[2]
2005 C	Lloyds TSB Bank	01/01/2035	01/01/2015	07/23/2012	25,000,000	17,315,000	17,315,000	17,310,000	BNY[1]
2005 I	Lloyds TSB Bank	01/01/2036	01/01/2015	07/23/2012	40,000,000	27,635,000	27,635,000	27,635,000	BNY[1]
2005 M	Lloyds TSB Bank	01/01/2036	07/01/2015	08/04/2012	60,000,000	40,305,000	40,305,000	40,305,000	BNY[1]
	Lloyd's TSB Bank subtotal[3]				225,000,000	157,910,000	157,910,000	141,765,000	
2006 C	State Street Bank	01/01/2037	01/01/2016	03/21/2013	28,335,000	22,775,000	22,385,000	22,385,000	BNY[1]
2007 E	State Street Bank	07/01/2038	07/01/2016	03/21/2013	25,000,000	11,560,000	11,110,000	10,425,000	RBC[2]
2007 J	State Street Bank	07/01/2038	07/01/2016	03/21/2013	37,500,000	17,695,000	17,005,000	15,915,000	RBC[2]
2007 S	State Street Bank	07/01/2038	07/01/2017	03/21/2013	18,975,000	18,975,000	18,975,000	18,975,000	BNY[1]
2007 T	State Street Bank	07/01/2048	07/01/2017	03/21/2013	37,160,000	24,980,000	23,080,000	23,080,000	BNY[1]
	State Street Bank subtotal				146,970,000	95,985,000	92,555,000	90,780,000	
2008 C	FHLB - Des Moines[4]	07/01/2048	07/01/2018	08/07/2015	40,000,000	40,000,000	40,000,000	33,210,000	RBC[2]
2009 C	FHLB - Des Moines[4]	07/01/2036	07/01/2019	02/12/2016	40,000,000	40,000,000	40,000,000	40,000,000	RBC[2]
2009 F	FHLB - Des Moines[4]	07/01/2016	NA	12/01/2016	34,120,000	25,010,000	-	-	RBC[2]
	FHLB - Des Moines subtotal				114,120,000	105,010,000	80,000,000	73,210,000	
	Total All Liquidity Providers				486,090,000	358,905,000	330,465,000	305,755,000	

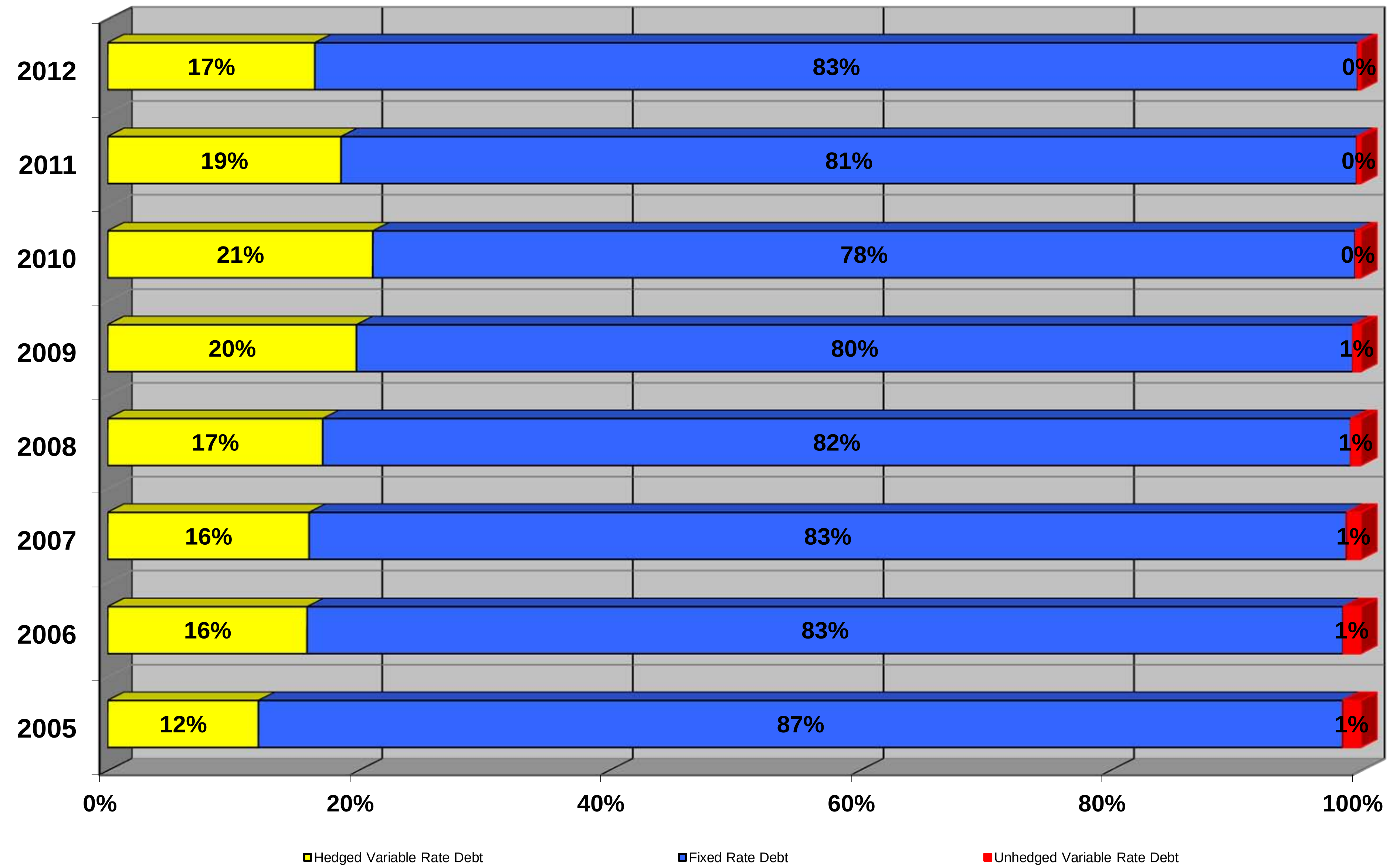
[1]The Bank of New York Mellon

[2]Royal Bank of Canada

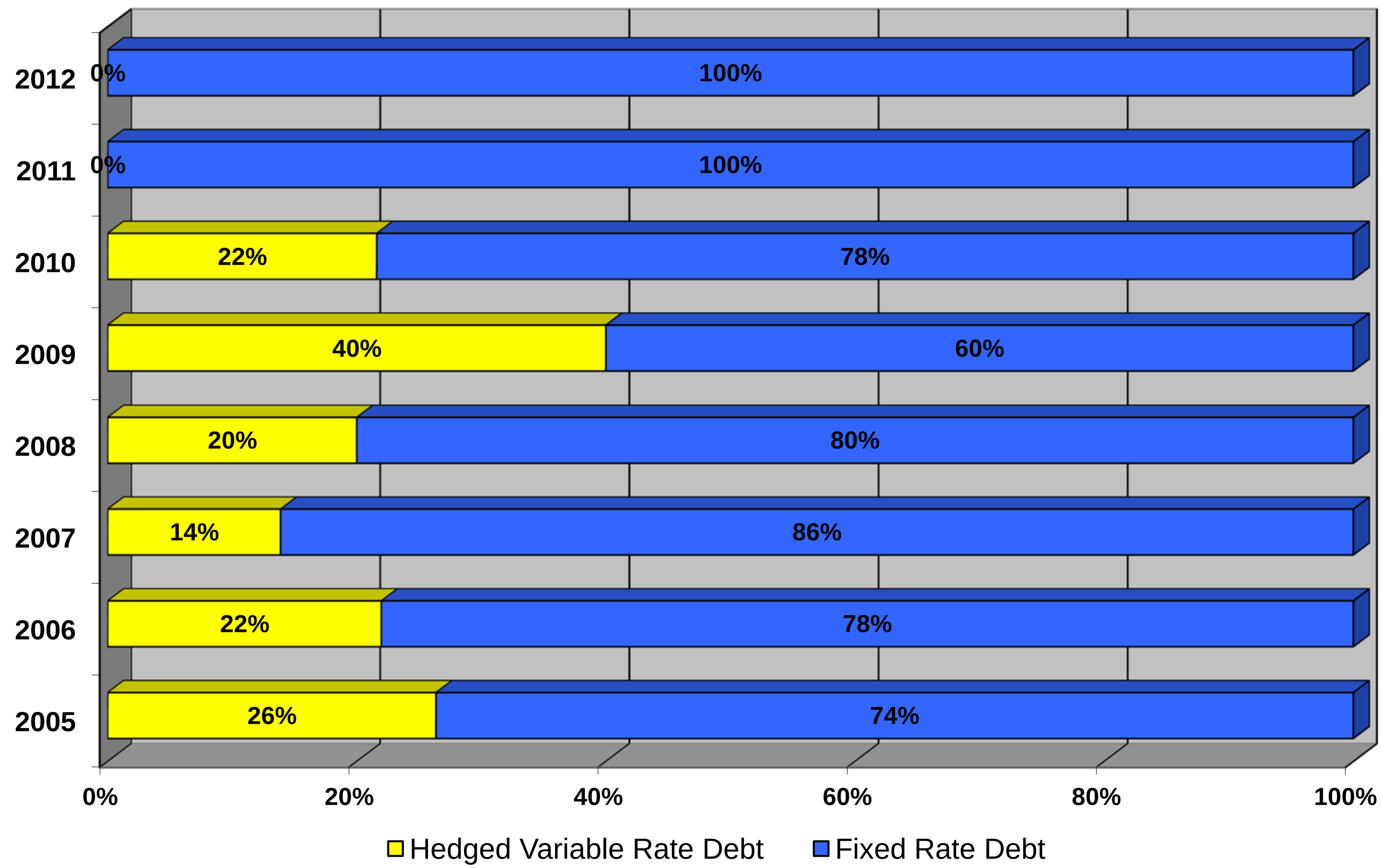
[3]See Footnotes on page 9.

[4]Federal Home Loan Bank of Des Moines

Total Long Term Debt: Fixed vs. Variable
Fiscal Year Ending June 30



Annual Long Term Debt Issuance: Fixed vs. Variable
Fiscal Year Ending June 30



GLOSSARY OF TERMS

The following are explanations of certain terms used in this presentation:

Amortization Risk

Minnesota Housing is subject to amortization risk on its hedged VRDOs because the prepayments from mortgage loans securing the bonds may cause the outstanding principal amount of bonds to decline faster than the nominal amount of the swap. To manage amortization risk, termination options have been structured into its outstanding swaps to enable Minnesota Housing in certain circumstances to reduce the nominal amounts of the swaps to correspond to the outstanding principal amount of the bonds hedged by the swap. Additionally, Minnesota Housing may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

Basis risk refers to a mismatch between the floating interest rate received from the swap counterparty and the interest actually paid on the related series of Minnesota Housing's variable rate bonds. Under its outstanding swaps, Minnesota Housing pays a fixed interest rate and in return receives a floating variable rate based on LIBOR or the SIFMA Municipal Swap index, plus a specified spread if the swap relates to tax-exempt bonds. Minnesota Housing's bonds hedged by its swaps bear interest at a variable rate that is reset weekly, based on market conditions. Minnesota Housing's risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually paid on the bonds. This mismatch between the actual bond interest rate and the swap floating interest rate would cause additional interest expense to Minnesota Housing. A mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the credit quality of Minnesota Housing or the liquidity facility provider, or a reduction of federal income tax rates for corporations and individuals. Basis risk varies over time due to inter-market conditions. Tax risk is a form of basis risk.

Counterparty Risk

Counterparty risk is the risk that the swap counterparty will not perform pursuant to the swap contract's terms, either in making regular payments or termination payments. Under a fixed payor swap, for example, if the counterparty defaults, Minnesota Housing could be exposed to unhedged variable rate bonds. The creditworthiness of the counterparty is indicated by its senior unsecured long-term credit rating. Minnesota Housing's counterparties are Citibank, N.A., UBS AG, and the Royal Bank of Canada. The outstanding swap agreements contain varying collateral requirements based on the respective parties' credit ratings and the fair value of the swaps to mitigate potential credit risk exposure.

GLOSSARY OF TERMS (continued)

LIBOR

London Interbank Offered Rate.

Liquidity Risk

Issuers of VRDOs face liquidity risk due to the ability of holders of the bonds to tender them for purchase upon short notice. The bonds are to be remarketed by a remarketing agent appointed by the issuer, but if the remarketing were to fail, the liquidity facility provider providing liquidity support to cover tenders would be required to purchase the bonds. In such event, the bonds, known as "bank bonds," would bear interest at a higher "bank rate" and be subject to principal amortization over a much shorter period than their stated terms. The bank rate typically floats at a few percentage points higher than the prime rate. Because of turmoil in the financial markets, substantially fewer financial institutions are providing liquidity facilities and at a substantially higher cost. Consequently, at the expiration of a liquidity facility, Minnesota Housing may have difficulty obtaining a replacement liquidity facility or may have to pay substantially higher fees.

SIFMA

Securities Industry and Financial Markets Association.

Tax Risk

All issuers who issue tax-exempt variable rate debt inherently accept risk arising from changes in marginal federal income tax rates. For variable rate tax-exempt bonds hedged with LIBOR-based swaps, basis risk may be realized if changes in the federal tax code alter the historical relationship between taxable and tax-exempt short-term rates on which the swap was structured.

Termination Risk

Termination risk is the risk that the swap may be terminated as a result of any of events specified in the swap, which may include a ratings downgrade for Minnesota Housing or its counterparties, covenant violation by either party, bankruptcy of either party, swap payment default by either party, events of default under the bond resolution and certain specified termination events.

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are

GLOSSARY OF TERMS (continued)

the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VDROs

Variable Rate Demand Obligations (“VDROs”) are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarketed by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.