



Rehabilitation Loan Program  
Procedural Manual  
October 2007

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# Introduction

## Mission Statement

Minnesota Housing is committed to meeting Minnesotans' needs for decent, safe, affordable homes and stronger communities.

## Background

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

Minnesota Housing created the Rehabilitation Loan program to compliment loan programs available in the private sector to fill the financial gap that existed between homeowners able to secure home improvement financing in the private sector and those homeowners unable to do so. The needs of low and moderate income homeowners, those with emergency financing needs and those with a Disabled Household Resident were considered when the Rehabilitation Loan Program was designed. Income limits for this program were established to target households with the greatest need.

## Procedural Manual

This Procedural Manual sets forth for Administrators the terms and conditions under which Minnesota Housing will purchase mortgages originated under its Rehabilitation Loan Program.

## Rehabilitation Loan Program

Deferred, zero percent interest Rehabilitation loans are available to low income Minnesota homeowners through participating Administrators. Loans must be for improvements that directly affect the safety, habitability, accessibility or energy efficiency of the home.

This program also provides emergency funds to finance repairs resulting from situations or conditions beyond the Borrower's control.

# Chapter 1 – Partner Responsibilities/Warranties

## 1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing programs executed between Administrators 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 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 loan or retain ownership of a 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 the program to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, an Administrator discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Administrator 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 Administrator and/or the Borrower. This includes loan funds, together with all applicable administrative costs and other fees or commissions received by the Administrator 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 Disclosure and Use of Social Security Numbers

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Chapter 270A) and Minnesota Statutes Section 270.66 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**

Administrator may receive fees approved in this Procedural Manual. However, Administrator shall not receive or demand from builder, remodeler, contractor, supplier, Borrower:

- Kickbacks, rebates or discounts; or
- Commissions; or
- Other compensation.

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

The Administrator 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 Administrator's office during regular business hours or forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased.

Audited loans are reviewed for:

- 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 loan program in part or in whole.

## **1.06 Termination of Administrator Participation**

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

- This Procedural Manual;
- The Participation Agreement;
- 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 home improvements; and
- Other applicable state and federal laws, rules and regulations.

Upon termination of an Administrator's contract Minnesota Housing will continue to purchase eligible loans for which a commitment has already been issued, until the commitment expiration date.

Minnesota Housing may, at its option, impose remedies other than termination of the contract for Administrator nonperformance.

Administrator may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate an Administrator shall be at Minnesota Housing's sole discretion.

## **1.07 Representations and Warranties**

The Administrator agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following:

- 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;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act and any applicable regulations and orders thereunder;
- 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);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Americans with Disabilities Act, 42 U.S.C.A. Section 1201;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement Procedures Act of 1974; and
- Code of Federal Regulations (24 CRF part 35)

In addition to the above warranties and representations, Administrator also warrants and represents that it:

- Will fully comply with all terms and conditions in the Participation Agreement and this Procedural Manual for each loan processed and closed unless prior written approval is obtained from Minnesota Housing;
- Is a legally constituted public or governmental agency, or nonprofit corporation or entity;
- Will maintain adequate capital and trained personnel for the administration of the program;
- Will maintain adequate insurance on its employees in the form of a Fidelity and Forgery Bond and supply written proof of this coverage to Minnesota Housing;
- Has an Affirmative Action Plan approved by the Minnesota Department of Human Rights with a current Certificate of Compliance, if it has more than 20 employees;
- And that on the date each loan was closed:
  - No payment, fee or remuneration of any type has been solicited or received by Administrator from any Borrower or contractor;
  - After reasonable inspection, the Administrator has no knowledge that any improvement included in the loan is in violation of applicable zoning ordinances, building ordinances, laws or regulations; and,
  - The Administrator has closed the loan in accordance with the instructions provided in this Procedural Manual.

## **1.08 Administrator Compensation**

Administrator is compensated for each loan purchased by Minnesota Housing as follows:

- Administrative fee of 14% of the loan amount, capped at \$1,600 per loan;
- Lead paint risk assessment costs; and
- Lead paint fee of \$150 when Borrower cancels loan after the risk assessment was completed.

## **1.09 Selection of Contractors**

- Administrator must permit Borrower to choose contractor(s).
- If the Institutional Community Work Crew or the Sentence to Serve Work Crew completes Rehabilitation on owner-occupied homes, the Administrator must fully disclose the work crew's procedural requirements and receive the homeowners written permission prior to the bidding process.

## **1.10 Borrower Selection**

Administrator must establish and maintain a Borrower selection process.

## Chapter 2 - Borrower Eligibility Requirements

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

### 2.03 Co-Signers

Co-signers are not allowed on Rehabilitation 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 party to the transaction.

### 2.05 Ownership Interest

A Borrower, individually or in the aggregate, must have at least one-third ownership interest in the residence to be rehabilitated. If the property to be rehabilitated is a mobile/manufactured home, the Borrower ownership interest requirement is 100%.

Eligible forms of ownership interest include the following:

- A fee simple estate;
- A leasehold estate;
- A mobile/manufactured home taxed as personal property; or
- A leasehold estate subject to a Community Land Trust.

Title may be held in the following ways:

- Individual, joint tenancy, a tenancy-in-common, or tenancy by the entirety;
- Vendee interest in a recorded contract-for-deed; or
- A recorded life estate, excluding remaindermen.

### 2.06 Principal Residence/Occupancy Requirements

At least one Borrower must have resided in the property for at least 6 months prior to application date and must regularly reside in the property as their principal place of residence for at least 9 months out of each year.

If the property is temporarily uninhabitable, prior written approval by Minnesota Housing must be obtained to waive the residency requirement.

## **2.07 Prior Minnesota Housing Assistance**

A Borrower who has previously received financing through the Rehabilitation Loan Program is ineligible to receive further financing through this program for five years (from the loan closing date) thereafter with exceptions for emergency situations.

## **2.08 Minnesota Housing Program Eligibility Income**

Gross annual household income is the gross annual projected household income verified within 120 days of the application date of all residents age 18 and over of the Borrower's household, 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 – less deductible medical expenses allowed. (See Income Eligibility Calculation Worksheet.) The Minnesota Housing maximum gross household income cannot exceed the amounts listed on Minnesota Housing's Website.

Gross annual projected household income includes:

- Salary, commissions, 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, income received from business activities or investments;
- Alimony, child support;
- Estate or trust income;
- Seasonal employment income;
- Ongoing educational grants;
- Contract-for-deed income deducting principal, interest, taxes, and insurance paid by property Administrator on outstanding debt against the property. (Deductions cannot exceed the contract-for-deed income.)

If a Borrower's gross annual income is zero or a negative amount, the Borrower is ineligible for financing.

## **2.09 Maximum Asset Limit**

The total assets of all residents in the household may not exceed \$25,000.00 after deducting any outstanding indebtedness pertaining to the assets. Assets include, but are not limited to, the following:

- Cash on hand or in checking accounts;
- Cash value of life insurance policies
- Securities or U.S. Savings Bonds;
- The current market value of all real estate less outstanding indebtedness, exclusive of the home to be improved and the parcel upon which it is situated, provided that the parcel in question may not exceed two contiguous lots or 160 acres;
- Recreational vehicles such as golf carts, snowmobiles, boats or motorcycles;

- All other property exclusive of household furnishings, clothing, one automobile, and real estate equipment, supplies and inventory used in a business.
- All land in which any resident of the household holds title and is selling on a contract-for-deed. Value in this case is defined as the outstanding principal balance expected to exist on the contract one year from the date of application; and
- Life estate value on a property other than the subject property.

## **2.10 Credit Requirements**

Borrower must be:

- Current on mortgage loan payments and up to date on real estate taxes.
- Unable to obtain financing under equivalent terms elsewhere.

## **2.11 Separated Spouses**

When the Administrator establishes that a spouse permanently resides outside of the household, that separated spouse may be excluded from signing the Rehabilitation loan application and note, but must sign the mortgage.

Examples of separated spouse documentation include:

- Legal separation documentation
- Proof of initiated divorce proceedings.
- Verification of separate Principal Residence and absence of joint accounts.

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

Administrator may make Minnesota Housing loans to 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 Administrator does business. Minnesota Housing employees and/or their families are eligible subject to approval by the Minnesota Housing Board of Directors. The Borrower must satisfy all eligibility criteria for the program.

## Chapter 3 - Property Eligibility Chapter

### 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; and
- A residential property, which includes:
  - A single family detached home;
  - A duplex<sup>1</sup>;
  - An eligible unit in a Planned Unit Development (PUD);
  - A unit of a condominium<sup>2</sup>;
  - A townhome; or
  - A mobile/manufactured home.

### 3.02 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;
- A property intended to be used as an investment property (except the rental of a second unit in a duplex);
- A property primarily used for business (more than 50% of the floor space is used for business).

### 3.03 Property Inspections

The Administrator must conduct inspections of the property as follows:

- The first inspection determines the property's deficiencies without regard to lead hazards and is used to prepare the initial Scope of Work.
- The Administrator must arrange for a certified risk assessor to perform a lead risk assessment for all properties constructed prior to 1978:
  - Where there is evidence of chipping or peeling paint or where rehabilitation work will disturb painted surfaces; and
  - Where rehabilitation costs exceed \$5,000.00.
- Additional inspections should demonstrate that construction has been completed according to the Scope of Work, that the quality of the work is satisfactory, and that the property has passed the lead clearance test (if applicable). The Administrator may conduct additional inspections as work is completed.

<sup>1</sup> The Borrower must occupy one unit of a duplex property.

<sup>2</sup> If the property is a condominium or townhome, only the portion of the real estate owned by the Borrower is eligible. Common areas owned by the association are not eligible.

- Minnesota Housing reserves the right to inspect properties during any stage of the Rehabilitation process with reasonable notice.

### **3.04 Local Ordinances and Plans**

Property improvements must conform to all applicable zoning ordinances and all appropriate use permits must be obtained.

## Chapter 4 – Loan Eligibility

### 4.01 Eligible Loans

Minnesota Housing purchases closed loans from Administrators under contract in Minnesota Housing loan programs. The Administrator must warrant that the following criteria have been met for each loan submitted for purchase.

- All loans have been originated, processed, underwritten and closed in accordance with the requirements of this Procedural Manual;
- 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;
- Program income limits and property requirements have been met;
- The loan must be originated and closed in the name of the Administrator 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;
- The loan amount is the lesser of the actual cost of the work to be completed or the maximum allowable loan amount;
- The loan amount and the assistance for which the Borrower is eligible are based on need; and
- Improvements must be completed within 9 months of the date of the loan.
- An Administrator may have five (5) loans in process at any given time. When one loan has been approved for purchase by Minnesota Housing, the Administrator may submit an additional loan commitment. Emergency loans do not count toward this loan in process maximum.

### 4.02 Loan Amount

- \$1,000 to \$15,000 or
- \$1,000 to \$20,000 when Accessibility Improvements or lead based paint are included.

### 4.03 Lead Based Paint

Rehabilitation loans, except for emergency loans, shall follow the provisions of Title 24 of the Code of Federal Regulations, part 35 for identifying and correcting lead-based paint hazards. Specifically,

- For a Rehabilitation Loan of more than \$5,000:
  - A lead-based paint risk assessment (risk assessment) must be completed for all homes constructed prior to 1978 where there is evidence of peeling or chipping paint or when the Rehabilitation work to be completed will disturb painted surfaces; and
  - Any deficiencies noted on the risk assessment must be corrected by individuals who are trained in lead-safe work practices or who are supervised by a Certified Lead Supervisor.

- For Rehabilitation Loans of less than \$5,000, a visual lead paint inspection must be conducted by an individual trained in lead hazard identification or a certified lead assessor.

The maximum loan amount of \$15,000 may be increased, if lead based paint is present, up to \$20,000. For example, if lead based paint hazards costs \$7,000, additional repairs or improvements of \$13,000 (for a total loan amount of \$20,000) could be included.

Minnesota Housing will reimburse Administrators the cost of the risk assessment on closed loans and on loans that are committed but cancel after the risk assessment is completed.

#### **4.04 Eligible Improvements**

The proceeds of a loan under this Procedural Manual shall be used to finance improvements which:

- Are permanent and meet the minimum provisions contained in the State Building Code;
- Corrects a defect or deficiency in the property directly affecting the safety, habitability, accessibility or energy consumption of the property;
- Are in compliance with all health, fire prevention, building codes and standards however no application shall be denied solely because the improvements will not bring the property into full compliance with such codes and standards;
- Additions require prior written approval by Minnesota Housing and are allowed only in circumstances of severe overcrowding or where the current facilities are a health or safety hazard.
- Demolition of outbuildings is allowed only when such clearance is required by the local building code.
- Energy Efficiency Improvements:
  - When the property is not reasonably energy efficient, loan funds must be used to increase that efficiency.
  - Energy savings improvements must be done in conformance with existing state building energy standards but the Administrator is not required to bring the entire property up to these standards.
- In making improvements to mobile/manufactured homes, priority must be given to the following:
  - Installation of anchoring systems or tie downs;
  - Improvements which bring the property into compliance with the current standards for energy efficiency and fire safety; and
  - Improvements to remedy imminent safety hazards.
- Accessibility funds may be used as follows:
  - To install only permanent modifications accommodating high priority mobility, homemaking and self care needs of a Disabled Household Resident.
  - Technical assistance costs may be eligible with prior written approval from Minnesota Housing.
  - Accessibility Improvements may include such items as:
    - The construction of ramps;
    - Installation of handrails and grab bars;

- Replacement of bathtubs with wheel-in-showers;
  - The lowering of items such as sinks, electrical switches and cupboards;
  - The widening of doorways; and
  - Bathroom or bedroom space on the first level of the dwelling.
- **Duplexes:** Any improvements that benefit only the rental unit of a duplex must have prior written approval by Minnesota Housing prior to commencement of the improvement work.

#### **4.05 Emergency Loans**

A Borrower facing an emergency situation may be exempt from the Administrator's Borrower selection criteria when funds are used for repairs to a property damaged as a result of events beyond the Borrower's control or as necessitated by a systems or structural failure such as:

- Failure of the heating, electrical, ventilation, or plumbing/septic system
- Roof leaks that have led to significant secondary damage to the interior of the home.
- A structural failure of the foundation, walls, or roof of the home that could cause collapse.
- An elevated lead blood level of a household resident due to lead paint.
- An accessibility need that prevents a disabled person from inhabiting the home.

Other emergency conditions that could cause the home to be or become uninhabitable will be considered by Minnesota Housing on a case-by-case basis.

Any repairs in addition to the emergency situation must be addressed through the Administrator's regular Borrower selection process. The loan amount for the emergency repairs and any additional repairs cannot exceed the maximum loan amount.

#### **4.06 Ineligible Improvements/Use of Funds**

Ineligible improvements include, but are not limited to, the following:

- Luxury upgrades – Improvements may not include materials or fixtures of a type exceeding that customarily used in the locality for properties of the same type as the property to be improved. The Borrower will be responsible to pay the difference between the average cost of the materials and the item selected.
- Public improvement assessments – Loan proceeds may not be used in whole or in part to pay public improvement assessments.
- Installation of new systems – Funds are for rehabilitation, repair, and replacement of existing systems as needed.
- Improvements already in place – Loan proceeds may not be used to pay for any work done prior to the date of the loan application.
- Existing debt – Loan proceeds may not be used to pay off existing debt.

#### **4.07 Bids and Estimates for Improvements**

Prior to making a loan, Administrator must review itemized bids and estimates for all proposed improvements to establish improvement eligibility and estimate cost.

#### **4.08 Security Requirements**

Administrator shall secure all loans with a mortgage or a lien on the mobile home title unless prior written approval from Minnesota Housing is obtained.

#### **4.09 Homeowner Labor**

- Homeowner labor is permitted provided the Administrator is satisfied the Borrower is capable of and willing to perform the labor.
- The Borrower must execute a Work Program Agreement.
- The materials list must include the actual cost of the materials required to complete necessary improvements.
- Administrator must perform at least one interim inspection in addition to the initial and final inspections otherwise required.
- Borrower shall not pay labor costs to them self or other household residents.

#### **4.10 Interest Rate/ Repayment Requirements**

Minnesota Housing requires the following:

- If the loan is paid in full within 30 days of the date the loan becomes due and payable, the interest rate is 0%.
- If the loan is not repaid within 30 days of the date it becomes due and payable, the interest rate is the lesser of 18% per annum or the highest interest rate allowed by law.

#### **4.11 Mortgage Term**

- 20 year forgivable term; or
- 15 year forgivable loan for mobile/manufactured homes taxed as personal property located within a mobile home park.

Prior to the expiration of the applicable periods stated above, all loans are due on sale, transfer of title, or if the property ceases to be the borrower's principal place of residence.

#### **4.12 Title Verification**

Administrator is required to verify the legal description of the subject property, the Borrower's ownership interest, and any existing liens. Title investigation may be conducted by the Administrator through documented contact with the County Recorder's Office/Registrar of Titles, or with an Owner's and Encumbrances report.

### **4.13 Hazard Insurance Requirements**

All properties must be covered by hazard insurance which meets at a minimum the following requirements:

- Insurance must be in effect on the date of the mortgage;
- Level of Coverage: Hazard insurance must be provided in an amount sufficient to cover all lien amounts or 100% of the insurable value and protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement and should be of the type that provides for claims to be settled on a replacement cost basis; and
- Mortgage Clause: All insurance policies must contain a 'standard' or 'union' mortgage clause in the form customarily used. The mortgage clause should read "Minnesota Housing, in care of (*insert Servicer's name and address here*)."

### **4.14 Non-Complying Loans**

Minnesota Housing shall have the right to take one or more of the following actions in the event an Administrator submits a loan that does not, as determined by Minnesota Housing, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the noncomplying loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Administrator to repurchase the loan for the purchase price;
- Terminate, suspend, or otherwise limit the Administrator's Participation Agreement with Minnesota Housing; or
- Preclude the Administrator from future participation in Minnesota Housing programs.

### **4.15 Repurchase of Loans**

Minnesota Housing may, at its option, tender any loan to the Administrator for repurchase if:

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

Upon written notice of repurchase by Minnesota Housing, Administrator has ten (10) business days to submit payment to Minnesota Housing for the unpaid principal balance and reasonable expenses incurred by Minnesota Housing, including attorney's fees. Failure to comply with this requirement may result in the termination, suspension, or otherwise limit the Administrator's Participation Agreement with Minnesota Housing.

## Chapter 5 – 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 such as:

- A maximum dollar amount an Administrator may commit, or
- A maximum number of Individual Commitments an Administrator may commit.

Administrator commits funds on a first-come, first-served basis. Fund balances 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 Administrator. It is expected that the loan will be submitted to gain a Purchase Approval status via the HDS SF Web Application.

### 5.01 Requesting a Commitment

Once Administrator has determined that a Borrower meets the loan requirements, an Individual Commitment of funds is requested through the HDS SF Web Application.

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

Commitments are valid for 120 days. All commitments will be automatically cancelled at day 121.

Loans must meet eligibility requirements and gain a status of Purchase Approval via HDS SF Web Application no later than the last day a commitment is still valid.

### 5.02 Modifying a Commitment

- Any change to a commitment must meet eligibility requirements and 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.
- A change of the loan amount will be allowed if funds are available.

### 5.03 Canceling a Commitment

Minnesota Housing requires Administrator to cancel any commitment that will not be used for the specified loan.

## **5.04 Transfer of Individual Commitments**

Administrator may not transfer commitments to another Administrator. Minnesota Housing staff may transfer a commitment under the following conditions:

- Administrator requests in writing a transfer of the commitment to different Administrator and documents the reason,
- Original Administrator must transfer and/or assign case documents to the new Administrator.

## **5.05 Minnesota Housing Loan Purchase/Disbursement of Funds**

Minnesota Housing will purchase loans with a status of Purchase Approval by the daily cutoff time, Monday through Friday, except for State observed holidays. The disbursement of funds will occur on the next business day.

Rehabilitation loans will be disbursed in two (2) disbursements to the Administrator. Upon gaining a commitment via the HDS SF Web Application, 50% of the loan amount and 50% of the administrative fee will be disbursed. Upon gaining Purchase Approval via the HDS SF Web Application, the remaining loan amount and administrative fee will be disbursed.

A Lender Certificate detailing purchase transactions details will be available only via the HDS SF Web Application.

## **5.06 Loan Purchase Corrections**

If it is determined that an adjustment to the purchase price of any purchased loan is necessary, Minnesota Housing will either invoice Administrator for any funds to be returned or disburse additional funds to Administrator.

## **5.07 Emergency Rehabilitation Loan Funds**

If Rehabilitation Loan Program and Emergency Loan Pool funds have been depleted prior to the end of the program term Minnesota Housing may make additional funds available for emergency loans.

## 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 via the HDS SF Web Application.
- All loan documents must be on Minnesota Housing forms and may not be altered in any way.
- All loan documents must be complete, accurate and reviewed by the Administrator at the various and appropriate stages of the loan.
- All mortgage assignments must run directly from the Administrator to Minnesota Housing and use the Minnesota Uniform Conveyance Blank.

### 6.02 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the Loan Transmittal form detailing specific documentation/delivery requirements. Administrator must fully execute and deliver documents within designated timeframes. In addition, Administrator must specifically warrant that all applicable documentation has been obtained and reviewed to determine compliance with all Minnesota Housing requirements.

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

### 6.03 Records Retention

Administrator must retain any and all documents (including compliance with Minnesota Housing program guidelines) as may be required, including, but not limited to:

- Written verification of all major sources of income;
- Written verification of current property ownership (if contract-for-deed, a copy of the properly recorded contract); and
- Bids and estimates for all proposed improvements.

## **Chapter 7 – Servicing**

### **7.01 Servicing**

- Each Administrator will be assigned a designated servicer by Minnesota Housing.
- Minnesota Housing may, at its discretion, designate other servicers.

### **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 five (5) calendar days of the Minnesota Housing purchase of 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.

# Appendix

[Definitions](#)

[Forms List](#)

[Process Guide](#)

## Definitions

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

Term	Definition
Accessibility Improvement	An interior or exterior improvement or modification to a property, which is necessary to enable a resident or a Borrower with a permanent physical or mental condition that substantially limits one or more major life activities to function in that Property.
Administrator	A nonprofit, incorporated organization or a governmental entity with which Minnesota Housing, in its sole discretion enters into a contract agreement for local administration of the program.
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.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Minnesota Housing Program Eligibility Income	Income used to meet the requirements of this Procedural Manual.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Rehabilitation	Necessary repairs to be completed on the Borrower's property.

## Forms List

Accessibility Evaluation  
Borrower Application  
Change Order  
Completion Certificate  
Contractor Warranty  
Homeowner Responsibilities  
Income Eligibility Calculation Worksheet  
Lead Paint Checklist  
Loan Transmittal  
Medical Information Authorization  
Mortgage  
Note  
Note and Mobile Home Security Agreement  
Signature/Record Retention Requirements  
Work Program Agreement

## Process Guide

This guide is a supplement to the Minnesota Housing Rehabilitation Loan Program Procedural Manual. All policies and processes contained in the Minnesota Housing Rehabilitation Program Procedural Manual must be followed.

The contents of this guide cover a number of Minnesota Housing eligibility guidelines but do not contain all the information necessary to originate a loan for sale to the Minnesota Housing.

All loans must be processed following the Administrator's established Selection Process and must meet the guidelines of the Administrator that originates the loan.

### Borrower Selection Process

- Confirm Borrower meets Administrator's Selection process.

### Origination

- Complete the application with the Borrower
- Explain to the Borrower the following:
  - Events of default:
    - Any form of title transfer
    - Ceasing to occupy property as primary residence
  - Limited use of equity
  - Borrower certifications
  - Forgiveness aspect of the loan
  - Homeowner Responsibility Form

#### System:

- Pre-Qualifying Assessment – Enter basic information and see programs borrower may qualify for with Minnesota Housing.
- Select program, enter appropriate information, making adjustments as needed (from error messages), and submit to gain commitment.
- Upon commitment, half of the loan amount and administrative fee will be received in two business days.

### Minnesota Housing Program Eligibility/Underwriting

- Confirm Borrower Eligibility
  - Verify income (2.08) (Use Income Eligibility Calculation Worksheet)
  - Verify assets (2.09)
  - Verification is within 120 days prior to application date;
  - Verify disabled household member, if applicable ([Use Accessibility Evaluation form](#))

- Confirm Property Eligibility
  - Borrower Ownership Interest (2.05)
  - Emergency Loans (4.05)
  - Determine required repairs
  - Homeowner Labor, if applicable (4.09)
- 

### **Scope of Work/Bid Procedures**

- Property Inspections (3.03)
  - Priority should be given to correcting deficiencies
  - If a particular deficiency is not corrected, include in the loan file a signed statement from the borrower acknowledging same.
  - Lead Paint Risk Assessment (4.03)
- Administrator and borrower complete a Scope of Work
  - Basis for contractor bids
  - Estimate costs to address feasibility of work and contractor bids
  - Administrator may provide list of contractors and Certified Lead Paint Supervisors
    - Bid Procedures
      - Homeowner secures bids (whenever possible two bids for each improvement are obtained);
      - Borrowers disclose all bids;
      - Homeowner & Administrator review bids
      - Administrator may reject a bid or bids;
      - Homeowner has final contractor approval;
      - If low bid is not chosen, a justification for choosing the higher bid is placed in the file;
      - Contractor(s) sign and date all bids;
        - Contractor Warranty executed for all general contractors, lead paint contractors and materials suppliers who deliver to the site;
        - Contractors meet state licensing requirements and in the case of lead paint reduction are certified lead supervisors or a worker trained in lead-safe work practices. Evidence of same is maintained in the Administrator's file.
- Administrator holds pre-construction conferences with the borrowers and contractors.
  - Discuss borrower responsibility, contractor obligations, work schedule, dispute resolution and completion-payment process.
- If total bids exceed the amount of assistance provided by the Minnesota Housing loan, the borrower signs a statement acknowledging financial responsibility for the difference and the administrator collects the additional funds from the borrower and places those funds in escrow prior to the Proceed to Work order being issued.

**System:**

- Retrieve Commitment and enter required information, making adjustments as needed (from error messages).
- All information except the closing date can be entered and qualified prior to "Purchase Approval" by the HDS SF Web Application.

**Closing**

- Administrator closes loan-with borrower. (See Signature/Record Retention Requirements form)
- Documentation Requirements (See Signature/Record Retention Requirements form)
  - Mortgage Note and Lending Agreement (taxed as real property)
  - Mortgage (taxed as real property)
  - Note – Lending Agreement and Mobile Home Security Agreement (taxed as personal property)

**System:**

- After loan is closed, retrieve Commitment and enter loan closing date, submit to gain "Purchase Approval" on the loan.
- The Purchase view will show payment details and remaining loan funds and administrative fee will be received in two business days!

**Post Closing / Delivery**

- Documents Required (6.02) ([See Loan Transmittal form](#))
- Document Delivery (See Loan Transmittal form)
- Note is endorsed to Minnesota Housing:

Without Recourse, Pay to the Order of:  
Minnesota Housing

(Name of REHAB Administrator)

By: \_\_\_\_\_  
(Name and Title)

- Assignment of Mortgage is completed.
- Recording
  - Real property
    - Mortgage and Assignment of Mortgage delivered to the appropriate office:
      - Abstract property – County Recorder’s Office
      - Torrens property – Registrar of Titles
  - Personal Property
    - Submit Public Safety Form 2017 (PS2017), listing Minnesota Housing as the lien holder, to the Department of Public Safety

Note - Documents should not be sent for recording until after completion of work. If amount of mortgage changes after closing, record only the mortgage with the correct mortgage amount.

**System:**

- Track submission deadlines for final documents.
- Retrieve the loan record and note deadlines and required corrections.

## **Completion of Rehabilitation Work**

- Administrator issues Proceed to Work orders on the closing date;
- Work is completed within 9 months of closing unless Minnesota Housing issues a written extension.
- Borrower is responsible to ensure contractor completes work within 9 months;
- Administrator sends notification to borrower 30 days prior to the expiration of the 9 month period.
- If work is incomplete at final inspection and extension is requested:
  - Administrator works with borrower and contractor to resolve issues/problems prior to the 9 month expiration date.
  - If based on the work schedule or on an interim inspection, the Administrator determines that the work cannot be completed satisfactorily by the completion date; the Administrator notifies Minnesota Housing immediately to request an extension.
- If work is incomplete at expiration date and no extension is requested:
  - Unused funds are returned to Minnesota Housing
  - Contractor payment becomes borrower's responsibility
  - Incomplete work is borrower's responsibility
  - Administrator revises Mortgage and Promissory Note and/or the Mobile Home Note and Security Agreement
  - Borrower signs the revised Mortgage and initials the revision to the Promissory Note and/or the Mobile Home Note and Security Agreement
  - Only the portion of the loan funds actually disbursed will be collected by Minnesota Housing in the event of sale, transfer of title or expiration of the term
- Change Order
  - Required when:
    - Additional work is required to complete improvement
    - Contractor revises bids
    - Administrator uses discretionary authority to increase approved loan amount – up to the maximum
- Contractor Replacement
  - Obtain new signed bid and Contractor Homeowner Warranty
- If loan amount changes (increase or decrease): (See 5.06 Loan Purchase Corrections)
  - Administrator revises Mortgage and Promissory Note/Mobile Home Note and Security Agreement
  - Borrower re-executes Mortgage and initials revised Promissory Note/Mobile Home Note and Security Agreement

- Administrator's Initial and/or Interim Funds Disbursement:
  - Perform required inspection (initial or interim)
  - Collect:
    - Lien waivers from all general and sub-contractors and materials suppliers for the completed improvements.
    - Sworn Construction Statement
  - Disburse funds to appropriate parties
- Administrator's Final Funds Disbursement:
  - Perform required final inspection
  - Obtain:
    - Lien waivers from all general and sub-contractors and materials suppliers for the completed improvements
    - Fully executed Sworn Construction Statement
    - Fully executed Completion Certificate
    - If materials loan (Work Program Agreement), obtain paid receipts and applicant signs as Homeowner (no contractor signature).
- Complete:
  - Lead Paint Rehabilitation Checklist, if applicable
  - Disburse funds to appropriate parties

**Note on Disbursements:** Final disbursement of funds takes place only after the Completion Certificate is signed and dated by all parties (Administrator and Borrower) and lien waivers are obtained for all completed work.

Materials Only Loans – Borrowers may borrow funds for the cost of materials only.

- Administrator reviews qualifications of person doing improvements and determines he/she has the necessary skills to complete the improvement(s)
- Complete Work Schedule according to Work Program Agreement. (See Work Program Agreement form)
- Complete Work Program Agreement
- Obtain a signed, dated materials list from the supplier
- Administrator authorizes borrower to order materials/supplies
- Administrator assists borrower in making credit arrangements with materials suppliers. (Disbursement of funds by the borrower/to the borrower is not permitted under this program.)
- Statement that borrower will pick up materials is included in the loan file, if applicable.
- Show actual cost of materials on materials list
- Administrator performs initial, interim (at least one) and final inspections pursuant to the Work Program Agreement