



Preservation Affordable Rental Investment Fund (PARIF) Program Guide

April 2019

MINNESOTA HOUSING - PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) PROGRAM



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Chapter 1 – Program Purpose and Background

Minnesota Housing’s authority to develop the Preservation Affordable Rental Investment Fund (PARIF) Program is granted in Minnesota Statute Section 462A.

The purpose of the program is to provide funding to support the preservation of federally assisted, permanent rental housing where federal subsidies are at risk of being lost. The program may also be used to preserve existing supportive housing properties. For this purpose, supportive housing means affordable rental housing with linkages to services necessary for individuals, youth and families with children to maintain stability.

For the preservation of federally assisted properties, the risk of loss must be due to one of the following factors:

- Market conversion (federally assisted housing only)
- Critical physical needs (federally assisted or supportive housing)
- Diminished organizational capacity (federally assisted or supportive housing) or owner commitment to federal assistance (federally assisted only)

Funds can be used for acquisition, rehabilitation or debt restructuring. For federally assisted properties, funds may also be used for equity take-out loans.

Owners of federally assisted properties must agree to participate in the applicable federal assistance program and to extend the existing low-income, affordability restrictions for the maximum term permitted. Owners of federally assisted properties must also enter into an agreement that gives local units of government, housing and redevelopment authorities, and nonprofit housing organizations the Right of First Refusal (ROFR) if the property is offered for sale.

Chapter 2 – Eligibility Criteria

2.01 Owner/Sponsor

Eligible applicants include:

- A nonprofit organization, as defined in Minnesota Statutes, section 462A.03, subdivision 22
- A city, as defined in Minnesota Statutes, section 462A.03, subdivision 21
- A joint powers board established by two or more cities that owns or will own the housing
- A public housing agency that owns or will own the housing
- An Indian tribe or tribal housing corporation that owns or will own the housing
- A natural person who owns or will own the housing
- A private developer, as defined in Minnesota Rules, 4900.3610, subpart 17

Priority. Priority is given among comparable proposals to developments that are or will be owned by a local government unit, housing and redevelopment authority, or a nonprofit housing organization.

2.02 Federal Assistance

Among comparable proposals for federally assisted properties, priority must be given to properties with the longest term under an agreement for federal assistance and supportive housing developments that exhibit the greatest need of funding and demonstrate a reliable source of service funding.

As a condition of this funding, the owner will be required to enter into an agreement to participate in the applicable federally assisted housing program and to extend any existing low-income affordability restrictions on the housing for the term negotiated with Minnesota Housing, which is generally 30 years.

Except for good cause, existing subsidized tenants may not be evicted, and the owner must continue to renew leases for those residents.

2.03 Supportive Housing

As a condition of this funding, the owner will be required to enter into an agreement to continue to operate the development as supportive housing for the term of the loan.

2.04 Use and Level of Funding

Funds may be used for developments that contain a minimum of four units that are:

- Acquisition, rehabilitation, equity take-out and/or debt restructuring of permanent, rental housing with existing federal subsidies that are at risk of loss
- Acquisition, rehabilitation and/or debt restructuring of existing permanent supportive housing units that are at risk of loss

Level of Funding. In determining the amount of the loan, Minnesota Housing will review cost reasonableness on a per-unit and total development cost basis. Minnesota Housing will also analyze the developmental and operational costs to ensure that the amount of funding provided to the

development is not more than is necessary to make the development financially and/or physically feasible.

2.05 Design and Construction Review

Refer to the current [Multifamily Application Instructions: Consolidated RFP and HTC Rounds 1 and 2](#) and the [Rental Housing Design/Construction Standards](#).

2.06 Occupancy Requirements

Income Limits. State law governing the PARIF Program allows for assisted units to be occupied by households with incomes at the time of initial occupancy that meet the requirement(s) of the federal program(s) the funds are preserving, which generally means up to 80 percent of statewide median income, not adjusted by family size. Refer to the [Multifamily Rent and Income Limits](#) for current income requirements; however, Minnesota Housing will require income limits consistent with those specified in the owner's application, provided that they are not higher than the statutory income limits.

Minimum Term. The income and occupancy conditions for the assisted units are in effect for the life of the loan and/or the covenant running with the land.

Monitoring. The income and occupancy requirements will be monitored by Minnesota Housing for the length of the loan. Minnesota Housing will review household incomes for all assisted units for compliance through the review and analysis of tenant income verification forms.

As assisted units become vacant, incomes of new households occupying those units will be verified, analyzed and reported to Minnesota Housing on an annual basis.

Chapter 3 – General Deferred Loan Characteristics

Minnesota Housing underwriting for all developments will include analysis of financial feasibility, development costs, as well as a review of management, marketability and architectural requirements. Please refer to Minnesota Housing's [Multifamily Underwriting Standards](#).

Credit Worthiness of Borrower. Minnesota Housing will evaluate the borrower's financial acceptability, considering assets, liquidity, length of time in operation and previous housing experience.

3.01 Mortgage Interest Rate and Term

Loans will generally be provided in the form of a 0 percent, 30-year loan with principal (and interest, if any) due and payable at the end of the term. The interest rate may be adjusted in order to allow these funds to be utilized with other sources of funding, such as Housing Tax Credits; however, Minnesota Housing may at its sole discretion require 20 percent of cash flow in excess of \$50,000 to be repaid annually. The loan term may be adjusted based on requirements and conditions of the federal assistance or other funding sources.

Loans will generally be full recourse; however, Minnesota Housing allows non-recourse debt to single asset entities.

3.02 Transfers of Ownership/Prepayment

Right of First Refusal. As a condition of funding federally assisted developments, the owner must enter into an agreement running with the land that gives local units of government, housing and redevelopment authorities, and nonprofit housing organizations the right of first refusal (ROFR) if the rental property is subsequently offered for sale and a bona fide outside offer is received during the term of the agreement. This ROFR applies to each sale during the term of the agreement.

Transfers of Ownership. Sale of the property to another eligible borrower and assumption of the loan must be pre-approved in writing by Minnesota Housing. Approval must be requested through the [Request for Action \(RFA\) process](#). Approval is at Minnesota Housing's sole discretion and will only be considered (but not guaranteed to be approved) if:

- Mortgagor is not in default of any of its agreements with Minnesota Housing, whether such agreements involve the PARIF loan or some other loan that is secured by the mortgaged property
- The new entity is creditworthy, in Minnesota Housing's sole opinion
- The new entity assumes all contractual obligations with Minnesota Housing
- Payment of an assumption fee equal to the approximate administrative costs of processing the sale and assumption.

Prepayment. The mortgage may be prepaid in full at any time; however, covenants and conditions in the declaration(s) will remain in place for the remaining term of the declaration. Minnesota Housing will charge a prepayment fee in an amount equal to the approximate administrative costs incurred by Minnesota Housing in processing the prepayment.

3.03 Return on Equity

Minnesota Housing statutes currently allow a maximum return of 15 percent based on actual developer equity (as determined by Minnesota Housing) for developments that use PARIF loan proceeds for acquisition, debt restructuring and equity takeout loans. This restriction does not apply to developments that include the rehabilitation of existing housing.

3.04 Management and Operation

Management and Operating Expense Budget. The budget submitted with the application will be reviewed and compared to the property's operating history and budgets of comparable developments financed by Minnesota Housing. This data will be used in the underwriting of the loan and used to project long-term operating costs that will protect the long-term investment being made by the owner and lenders.

Minnesota Housing reserves the right to reject or adjust the operating and maintenance figures based on the information supplied, specific development type, rehabilitation scope of work, and circumstances and/or significant changes to the economics of the development's current marketplace.

Refer to the Minnesota Housing [Multifamily Underwriting Standards](#) for more information on Minnesota Housing's requirements and evaluation of management and operating expenses.

Marketing. The owner/agent must demonstrate that they have established networks and linkages necessary for residents to maintain housing stability.

3.05 Monitoring and Reporting Requirements

Minnesota Housing actively monitors each development it finances. This includes tenant incomes, rents, affirmative action and equal opportunity requirements and year-end operating reports.

Assisted units must be leased to qualified households who must disclose their annual household income at initial occupancy on an [Initial Occupancy Statement by Tenant form](#) (other, more detailed income certification forms may be acceptable). This form is used to ensure households are qualified to occupy an assisted unit.

Owners must also request (but cannot require) that qualified households complete a [Head of Household Demographic Information form](#), which will provide additional information for program evaluation.

Additionally, each adult member of a household occupying an assisted unit must sign and date a Minnesota Government Data Practices Act Disclosure Statement. This information informs the tenant that their annual household income and other information will be reported to Minnesota Housing and may be reviewed by other governmental agencies. This is required for the administration and management of state or federal programs that provide housing for low- and moderate-income families.

Occupancy information on all units must be reported annually in a form and manner requested by Minnesota Housing.

Chapter 4 – Fair Housing Policy

It is the policy of Minnesota Housing to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to Minnesota Housing programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, familial status, gender identity or sexual orientation.

Minnesota Housing's fair housing policy incorporates the requirements of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988, as well as the Minnesota Human Rights Act. Housing providers are expected to comply with the applicable statutes, regulations, and related policy guidance. Housing providers should ensure that admissions, occupancy, marketing and operating procedures comply with non-discrimination requirements.

In part, the Fair Housing Act and the Minnesota Human Rights Act make it unlawful, because of protected class status, to:

- Discriminate in the selection/acceptance of applicants in the rental of housing units;
- Discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- Engage in any conduct relating to the provision of housing that otherwise make unavailable or denies the rental of a dwelling unit;
- Make, print or publish (or cause to make, print or publish) notices, statements or advertisements that indicate preferences or limitations based on protected class status;
- Represent a dwelling is not available when it is in fact available;
- Deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions of membership or participation; or
- Engage in harassment or quid pro quo negotiations related to the rental of a dwelling unit.

Minnesota Housing has a commitment to affirmatively further fair housing for individuals with disabilities by promoting the accessibility requirements set out in the Fair Housing Act, which establish design and construction mandates for covered multifamily dwellings and requires housing providers to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

Applicants will be required to submit an Affirmative Fair Housing Marketing Plan at the time of application, to update the plan regularly and to use affirmative fair housing marketing practices in soliciting renters, determining eligibility and concluding all transactions.

As a condition of funding through Minnesota Housing, housing providers are not permitted to refuse to lease a unit to, or discriminate against, a prospective resident solely because the prospective resident has a Housing Choice Voucher or other form of tenant-based rental assistance.

Chapter 5 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

5.01 Fraud

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

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in section 5.05.

5.02 Misuse of Funds

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

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

Any borrower or grantee (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in section 5.05.

5.03 Conflict of Interest

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

An individual conflict of interest is any situation in which one's judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a friend, relative, acquaintance or business or organization with which they are involved.

Organizational conflicts of interest occur when:

- A contracting party is unable or potentially unable to render impartial assistance or advice to Minnesota Housing due to competing duties or loyalties
- A contracting party's objectivity in carrying out the award is or might be otherwise impaired due to competing duties or loyalties

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- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors

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

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

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all actual, perceived or potential conflicts of interest through one of the ways described in section 5.05.

A contracting party should review its contract agreement and request for proposals (RFP) material, if applicable, for further requirements.

5.04 Suspension

By entering into any agreement with Minnesota Housing, a contracting party represents that the contracting party (including its employees or affiliates that will have direct control over the subject of the agreement) has not been suspended from doing business with Minnesota Housing. Refer to Minnesota Housing's website for a list of [suspended individuals and organizations](#).

5.05 Disclosure and Reporting

Activities required to be reported under this chapter may be made in any of the following ways:

- Minnesota Housing's Chief Risk Officer
- Any member of Minnesota Housing's [Senior Leadership Team](#)
- The Minnesota Housing hotline reporting service vendor, EthicsPoint, by calling toll-free 866.886.1274 to speak with a live operator or by visiting the EthicsPoint reporting [webpage](#)

Chapter 6 – Allocation of Funds

This funding is available on a statewide basis and is made available both year round and through Minnesota Housing’s annual Multifamily Consolidated Request for Proposals (RFP). Applications submitted outside of the annual RFP must meet the requirements outlined in the [Multifamily Application Instructions: Consolidated RFP and HTC Rounds 1 and 2](#) and are subject to funding availability. Minnesota Housing will review all proposals submitted and will attempt to make the best and most appropriate funding choices for each development selected.

Chapter 7 – Program Contact

For questions, contact Anne Heitlinger at 651.296.9841 or anne.heitlinger@state.mn.us. You may also contact the Housing Development Officer identified in your selection letter.