



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

*April 22, 2019*



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## **Introduction**

### **Mission Statement**

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

### **Background**

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

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

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

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

Minnesota Housing offers the Monthly Payment Loan and Deferred Payment Loan (including Deferred Payment Loan Plus) for Start Up Program Borrowers who need funds for downpayment and closing costs.

### **Procedural Manual**

This Procedural Manual sets forth the terms and conditions under which U.S. Bank – HFA Division will purchase mortgages under Minnesota Housing’s Start Up Program, including downpayment and closing cost loans.

### **Mortgage Revenue Bond Programs**

The Start Up Program offers low-interest loans throughout Minnesota to low- and moderate-income, First-Time Homebuyer Borrowers through local participating Lenders.

## **Downpayment and Closing Cost Loans**

**Deferred Payment Loan Program (see Chapter 6).** The Deferred Payment Loans provide an interest-free deferred loan to assist Borrowers with downpayment and closing costs.

**Monthly Payment Loan (see Chapter 6).** The Monthly Payment Loan provides an amortizing loan with an interest rate equal to the first mortgage to assist Borrowers with downpayment and closing costs.

## **The Master Servicer**

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

## **Chapter 1 – 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 Programs, as amended or supplemented (referred to as the Participation Agreement) for Minnesota Housing mortgage programs executed between the Lender and Minnesota Housing. It is incorporated into the Participation Agreement by reference and is a part of it as fully as if in the Participation Agreement at length.

Minnesota Housing reserves the right to:

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

### **1.02 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, the Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower(s) or others, the Lender must promptly report the discovery to Minnesota Housing and U.S. Bank – HFA Division.
- Minnesota Housing, or U.S. Bank – HFA Division, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender or the Borrower(s). 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 its recovery.



### **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 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(s) to Minnesota Housing.

### **1.04 Unauthorized Compensation**

The Lender may receive fees approved in this Procedural Manual. However, the Lender may not receive or demand from the realtor, builder, Property Seller, or Borrower(s):

- Kickbacks
- Commissions
- 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 U.S. Bank – HFA Division. A loan file may be requested to be forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by U.S. Bank – HFA Division.

Audited loans are reviewed for:

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

### **1.06 Termination of Lender Participation**

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

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

Upon termination of a Lender’s Participation Agreement:

- U.S. Bank – HFA Division will continue to purchase eligible loans delivered to U.S. Bank—HFA Division prior to the termination
- 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.
- The Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender is at Minnesota Housing’s and U.S. Bank – HFA Division’s sole discretion.

### **1.07 Representations and Warrants**

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

- Ability-to-Repay Qualified Mortgage (QM) Rule
- Americans with Disabilities Act
- Anti Predatory Lending Act
- Anti-Money Laundering and Office of Foreign Assets Control Policy
- Bank Secrecy Act
- CFPB Unfair, Deceptive, or Abusive Acts or Practices Rules
- Data Privacy - Minnesota Statutes Chapter 13 and Section 462A.065
- Dodd-Frank Wall Street Reform and Consumer Protection Act
- Equal Credit Opportunity Act
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62
- Fair and Accurate Credit Transactions Act
- Fair Credit Reporting Act
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968)
- Home Mortgage Disclosure Act
- Home Ownership and Equity Protection Act (HOEPA)
- HUD Discriminatory Effects Regulation/Disparate Impact Regulation
- Internal Revenue Code of 1986, Section 6050H
- Loan Officer Compensation
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A
- Mortgage Disclosure Improvement Act (MDIA)
- National Flood Insurance Act
- Real Estate Settlement Procedures Act of 1974
- Section 527 of the National Housing Act
- Title VI of the Civil Rights Act of 1964

- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974
- Truth In Lending Act
- USA Patriot Act

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

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

## **1.08 Lender Compensation**

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

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

## **1.09 Annual Renewal Requirements and Fees**

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

## **1.10 Marketing Materials Terms of Use**

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

## **Chapter 2 – Master Servicer Requirements**

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

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

## **Chapter 3 - Borrower Eligibility**

### **3.01 Borrower**

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

### **3.02 Borrower Age**

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

### **3.03 Co-Signers**

Co-signers are permitted on Start Up Program loans. Co-signers sign the Start Up Program loan note and the downpayment and closing cost loan note, if applicable. Co-signers are not vested in title to the property and may, or may not, reside in the subject property. See Section 3.09.

### **3.04 Unauthorized Compensation**

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

### **3.05 Prior Homeownership - Three-Year Requirement**

The Borrower(s) may not have had an ownership interest in their Principal Residence at any time during the three- year period preceeding execution of the mortgage loan documents (loan closing). This requirement applies to any person who will execute the note and will have an ownership interest in the financed property.

Ownership interest includes:

- A fee simple interest
- A 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, benefits, and burdens of ownership are transferred although legal title is not transferred until a later time
- An interest held in trust for the Borrower(s) (whether or not created by the Borrower(s)) that would constitute a present ownership interest if held directly by the Borrower(s)
- A vendee interest in a contract for deed with a term greater than 24 months
- An ownership interest in a mobile home that is permanently affixed to a foundation and is taxed as real estate

Interests that do not constitute an ownership interest include:

- A 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 last three years (e.g. a recreational or seasonal home)
- An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property
- An interest acquired through temporary financing (e.g. construction loan, bridge loan, contract for deed) with an initial term of 24 months or less

Required Documentation:

- To verify that the Borrower(s) meets the three-year requirement, the Lender must provide the following documentation for the three-year period preceding execution of the mortgage documents (loan closing):
  - The signed federal income tax returns (IRS Form 1040 and all its versions), or
  - Tax Return Transcripts obtained from the IRS, or
  - A letter from the IRS indicating the type of tax return filed and the significant line entries from the return(s), or
  - If the borrower (s) was not legally required to file a federal income tax return, for any or all of the three years, an affidavit executed by the Borrower (s) must be provided.
- The Lender should examine the tax returns or tax transcripts and the credit report for any evidence that the Borrower(s):
  - may have owned a Principal Residence during the past three years, or
  - may have claimed deductions for property taxes or mortgage interest deductions on a primary residence
- If the lender cannot verify the absence of ownership from a review of the tax returns, tax transcripts or other evidence, the absence of an ownership interest must be documented and verified by:
  - a title search with respect to the property to provide reasonable assurance that there was no actual ownership in a primary residence; and
  - a signed, written explanation from any Borrower(s) that the Borrower (s) has not had an ownership interest in a primary residence within the past three years.
- Special Documentation for Current Ownership - A Borrower(s) 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 or lease) showing that they have not lived in the dwelling during the most recent three year period.

### **3.06 Principal Residence/Occupancy Requirement**

The Borrower(s) 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(s) in the [Borrower Affidavit](#).

### **3.07 Homebuyer Education**

If all borrowers are first-time homebuyers, at least one borrower must complete an approved homebuyer education course prior to closing. A copy of the certificate of completion must be in the loan file. Minnesota Housing does not have a homebuyer education certificate expiration date policy.

Approved Homebuyer Education:

- Home Stretch
- Pathways Home: A Native Homeownership Guide
- Realizing the American Dream
- Framework (Online Course)

### **3.08 Credit Scores and Debt-to-Income (DTI) Ratios**

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

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

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

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

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

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

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

### 3.09 Program Eligibility Income

The total Program Eligibility Income may not exceed Start Up Program [income limits](#) posted on Minnesota Housing’s website.

#### Household Members Whose Income Must Be Included

The income of the following persons must be verified and included when calculating Program Eligibility Income:

- Anyone who will have title to the subject property and signs the Mortgage.
- Anyone expected to reside in the subject property and who is obligated to repay the Start Up loan (signs the Note) but who is not in title to the subject property; i.e. the occupant Co-Signer (not named in title to the subject property and does not sign the Mortgage).
- Any legal spouse of the Borrower who will also reside in the subject property.

If the Borrower is legally married and the spouse is not expected to reside in the subject property, the loan file must contain either the [Non-Occupant Spouse Statement](#) or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.



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Person	Signs Mortgage	Signs Note	Resides in Property	Include in Eligibility Income Calculation
Co-Borrower	X	X	X	Yes
Co-Signer, occupant		X	X	Yes
Co-Signer, non-occupant		X		No
Non-spouse, occupant, non-borrowing (on title)	X		X	Yes
Non-spouse, occupant, non-borrowing (not on title)			X	No
Spouse, occupant, non-borrowing			X	Yes
Spouse, non-occupant, non-borrowing				No

Any person whose income must be included in the Program Eligibility Income calculation who receives no income must sign either the [Zero Income Statement](#) or another statement indicating that he or she receives no income.

Program Eligibility Income Calculation

The [Program Eligibility Income Worksheet](#) posted on Minnesota Housing’s website delineates the Program Eligibility Income requirements. Lenders are responsible for computing Program Eligibility Income based on these requirements.

The total Program Eligibility Income is calculated using the Annualized Gross Income. Annualized Gross Income includes, but is not limited to:

- Base Pay from an employer
- Additional Pay from an Employer (over and above base pay)
- Self-Employment or Business Income
- Income from Financial Assets Government Transfer Payments Insurance or Benefit Payments Investment Property Net Rental Income
- Child or Spousal Support
- Regular Cash Contributions
- Employee Allowances
- Custodial Account Income

Always include sources of income unless specifically excluded on the Program Eligibility Income Worksheet. For more details on income inclusions and exclusions, refer to the [Eligibility Income Worksheet](#).

The calculation of Program Eligibility Income must take place in the 120-day period immediately preceding loan closing. In determining Program Eligibility Income, the Lender must rely on the most recently verified income documentation in the loan file.

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

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

## Chapter 4 - Property Eligibility

### 4.01 Eligible Properties

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

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

Additionally, eligible properties must meet the following:

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

### 4.02 Ineligible Properties

Properties not eligible for financing are as follows:

- A unit in a Cooperative Corporation or a limited equity Cooperative Corporation
- A Recreational or seasonal home
- A Single-wide mobile or 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(s) to take a deduction for any portion of the costs of the property for expenses incurred in connection with the trade or business use of the property on the Borrowers' federal income tax return

#### **4.03 Acquisition Cost Limit**

The 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.

The Acquisition Cost includes:

- All amounts paid either in cash or in kind, by the Borrower(s) (or by a related party for the benefit of the Borrower(s)) 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(s) and required to complete or repair a residence whether or not the cost of the completion or repairs is to be financed with the proceeds of a Minnesota Housing loan (which may be agreed upon beyond the contractual 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 4.07.
- All special assessments paid or assumed by the Borrower(s).

The Acquisition Cost does not include:

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

#### **4.04 Appraised Value**

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

#### **4.05 Personal Property**

Personal Property may not be financed by the Minnesota Housing loan and may not be listed on the purchase agreement between the Borrower(s) and Property Seller for the purchase and sale of the real property financed by that loan. Only permanently affixed property (fixtures) are eligible for financing.

#### **4.06 Excess Property**

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

- The financed land may not provide other than incidental income to the Borrower(s).
- 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.
- If the land value exceeds 45% of the total appraised value the appraiser must address whether the size of the lot is common or typical for the area.
- 

#### **4.07 New Construction Requirements**

In addition to the property eligibility requirements stated in Section 4.01 of this Procedural Manual, a New Construction property must meet the following requirements:

- The land must be zoned for residential housing.
- The cost of land purchased within 24 months before 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 the Acquisition Cost if the land was purchased more than 24 months before the date on which construction begins or through a non-arm’s length transaction.
- Any temporary financing (e.g. construction loan, bridge loan, contract for deed) provided before the date of the loan closing may not exceed a 24 month term.
- The 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 downpayment.
- A Certificate of Occupancy must be issued for the property before loan closing.
- The Borrower(s) may not act as the general contractor.

See Section 5.02 for New Construction financing requirements.

## Chapter 5 – Loan Eligibility

### 5.01 Eligible Loans

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

Eligible loan products include:

- Federal Housing Administration (FHA) purchase transactions
- FHA 203(k) Streamlined Purchase
- Veterans Administration (VA)
- Rural Development (RD)
- [Fannie Mae HFA Preferred™](#) (Conventional)
- [Fannie Mae HFA Preferred Risk Sharing™](#) (Conventional)
- [Freddie Mac HFA Advantage®](#) (Conventional)

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

Program loans must satisfy the following criteria:

- All local, state, and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending, and wrongful discrimination in residential housing are met.
- The Minnesota Housing First-Time Homebuyer, program income, and property acquisition requirements are met.
- 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 locked the loan (s) on the Minnesota Housing loan commitment system.

### 5.02 New Construction Requirements

In addition to the loan eligibility requirements already stated in this Procedural Manual (Section 5.01), a New Construction property must meet the following requirements:

- The program 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:

- The work was done 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
- The individuals that did 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
- The sweat equity is not a part of the Acquisition Cost
- The sweat equity includes only the value of work and not the cost of materials

### **5.03 Ineligible Loans**

A Start Up Program loan cannot be used to acquire or refinance an existing mortgage loan. Certain existing Start Up Program Mortgage loans may be assumed, as described in section 9.03 Assumption/Due-On-Sale.

### **5.04 Refinancing of an Existing Mortgage**

Borrowers may not use the Start Up Program to refinance an existing loan unless the Start Up Program loan replaces or refinances temporary initial financing.

### **5.05 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 Borrower(s) from the interest rate differential resulting from the mortgage revenue bond financing.

The recapture tax is payable through the Borrower’s Federal Income Tax Returns for the year the Borrower sells or transfers an eligible residence. The recapture tax provisions of the Code apply to all Borrowers. The recapture may apply if all three of the following conditions occur at once:

- The residence is sold within the first nine years of the closing date
- The Borrower realizes a gain on the sale of the residence (as defined by the IRS)
- The Borrower’s income has increased since the closing date and exceeds the limits established by the IRS

To ensure understanding and disclosure of subsidy recapture, the Lender must:

- Explain subsidy recapture to the Borrower(s) at the time of loan application (see the [Start Up Disclosure Summary](#))

Require the Borrower(s) to sign the completed Subsidy Recapture Disclosure Statement

- at closing or as close to closing as possible

## **5.06 Interest Rate/Amortization Requirements**

Minnesota Housing requires all loans:

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

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

## **5.07 Mortgage Term**

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

## **5.08 Private Mortgage Insurance Coverage**

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

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

All private mortgage insurance companies must:

- Be licensed to do business in the State of Minnesota
- Maintain a rating of A2 from Moody's Investor Services and AA from Standard and Poor's Corporation at the time the mortgage loan is purchased by U.S. Bank – HFA Division, or have Fannie Mae and Freddie Mac approval

## **5.10 Settlement/Closing Costs**

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

- Comply with Minnesota law
- Meet all requirements of the insurer/guarantor
- Not exceed an amount deemed usual or reasonable for the type of transaction (e.g. FHA, VA, Conventional)
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal)
- Ensure the Borrower does not pay more than a pro-rata share of property taxes

## **5.11 Gifts**

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



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

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

- Meet all requirements of the applicable first mortgage loan product and insurer/guarantor (i.e., FHA Secondary Financing, Fannie Mae Subordinate Financing, Freddie Mac Affordable Seconds)
- The Borrower may receive cash back at closing from secondary financing proceeds only when the cash back is a refund of the Borrower's own investment, as allowed by the first mortgage product.
- The secondary financing does not reduce the Acquisition Cost
- Minnesota Housing requires full disclosure of any and all secondary financing

For transactions using Minnesota Housing's Monthly Payment Loan:

- The Monthly Payment Loan mortgage must be in a second lien position

## **5.13 Non-Complying Loans**

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

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

## Chapter 6 – Downpayment and Closing Cost Loans

The downpayment and closing cost loan programs available with the Start Up Program are the Deferred Payment Loan (including the Deferred Payment Loan Plus option) and the Monthly Payment Loan. These loans provide funds to pay for eligible expenses including downpayment and customary buyer closing costs.

**Homebuyer Education.** Qualified Homebuyer Education is required for at least one of the Borrowers who receive a Deferred Payment Loan or Monthly Payment Loan. See Section 3.07 for more details.

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

### 6.01 Deferred Payment Loan Program

- The Deferred Payment Loan program is available to Lenders who participate in the Start Up Program. The two Deferred Payment loan options available are:
  - Deferred Payment Loan
  - Deferred Payment Loan Plus

The Deferred Payment Loan Program provides funds to pay for eligible expenses including downpayment and closing costs. It may also be used for additional downpayment beyond the minimum downpayment requirement dictated by the loan product. The Deferred Payment Loan and the Deferred Payment Loan Plus:

- Are available only in conjunction with a first mortgage loan purchased by U.S. Bank – HFA Division under the Start Up Program
- May be combined only with the Start Up Program with a 30-year term
- Are a junior lien
- Must be paid in full when, among other things:
  - The maturity date of the Deferred Payment 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 is declared to be due and payable in full
- Cannot be assumed

The Deferred Payment Loan:

- Is available in increments of \$100 up to \$8,000

The Deferred Payment Loan Plus:

- Is available in increments of \$100 up to \$10,000

## 6.02 Deferred Payment Loan Program Borrower Eligibility

The Borrower's maximum income to be eligible for the Deferred Payment Loan Program is indexed to area median income (AMI) and tiered by household size (see the Deferred Payment Loan Program [Income Limits](#)).

If using the **Deferred Payment Loan Plus** option, eligible Borrowers must meet the Borrower Eligibility requirements in Chapter 2 and demonstrate two of the following conditions:

- A front end ratio of 28% or higher (calculated without DPA)<sup>1</sup>
- A household of four or more people
- Have a Disabled Household Member
- Sole Head of Household with at Least One Eligible Dependent residing in the household
- Limitation: The household must include only one adult that is not an Eligible Dependent.
- An Eligible Dependents is:
  - A minor household member (under 18 years of age on the closing date);
  - A Disabled Household Member; or
  - A senior (age 62 or older on the closing date).

**Asset Limit.** A Borrower's liquid assets after closing are limited to the greater of eight months principal, interest, taxes, insurance, and association fee (PITIA) or \$8,000.

**Cash to the Borrower at Closing.** The Borrower may receive cash back at closing only when all of the following criteria apply:

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

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<sup>1</sup> Minnesota Housing realizes an estimate of front-end ratio may change in underwriting. As long as the Lender makes a good faith effort to identify costs at the point of origination, we allow reasonable changes to front-end ratio if the ratio documented on this worksheet is different than the final ratio calculated during underwriting. The Lender must provide an explanation if the variance between ratios is large or the Borrower's eligibility is a concern.

### **6.03 Deferred Payment Loan Program Lender Warranties**

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

- The Borrower’s cash investment is paid from the Borrower’s out of pocket funds
- The Borrower’s liquid asset reserves after closing are not more than the greater of eight months’ PITIA or \$8,000
- The Deferred Payment Loan Program monies received by the Borrower(s) are applied to the transaction and verified through the Closing Disclosure

### **6.04 Monthly Payment Loan Program**

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

- Are available only in conjunction with a Minnesota Housing first mortgage loan
- Are available in increments of \$100 up to \$15,000
- Must occupy a second mortgage lien position when combined with a non-Minnesota Housing Community Second Mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must be paid in full upon:
  - Sale or refinance of the property
  - Transfer of title to the property
  - Payment in full of the first mortgage at maturity
- The first mortgage is declared due and payable whether through default or other event
- May not be assumed

### **6.05 Monthly Payment Loan Borrower Eligibility**

The Borrower must satisfy all Start Up Program eligibility requirements as well as the following additional requirements for the Monthly Payment Loan.

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

**Asset Limit.** Monthly Payment Loans have no asset limit.

**Cash to the Borrower at Closing.** The Borrower may receive cash back at closing only when all of the following criteria apply:

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

## **6.06 Monthly Payment Loan Lender Warranties**

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

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

## **6.07 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 U.S. Bank –HFA Division, Section 8 Homeownership Subsidy Program Agreement and Home Choice/Section 8 Contract Information Form
- Service the loans before purchase by U.S. Bank – HFA Division in compliance with this Procedural Manual. This involves collecting a portion of the monthly payment from the Borrower(s) and a portion of the monthly payment from the public housing authority.

## **6.08 Second Mortgage Application and Loan Disclosure Procedures**

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

## **6.09 Subordination Policy**

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

## **Chapter 7 – Commitment/Disbursement**

See Minnesota Housing’s website for:

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

## Chapter 8 – Documentation Requirements

### 8.01 Loan Processing and Closing

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

- Loans must be closed and disbursed before completing the True and Certify process in the Minnesota Housing loan commitment system.
- The Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan. All loan documents other than Minnesota Housing Forms must be industry standard and meet the requirements of U.S. Bank – HFA Division, the underlying loan product, and the insurer/guarantor, as applicable. (See the Minnesota Housing website for more details on required forms.)
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and appropriate stages of the loan.
- 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 forms may not be altered in any way. Industry standard forms may not be altered in any way other than to add a company name and logo. The first mortgage loan and the second mortgage loan (if applicable) must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that locked the loan (s) on the Minnesota Housing loan commitment system.
- All first mortgage assignments must run directly from the Lender to U.S. Bank – HFA Division.
- All second mortgage assignments must run directly from the Lender to the Minnesota Housing Finance Agency.
- The Lender must submit final documents to U.S. Bank – HFA Division within 120 days of U.S. Bank – HFA Division’s loan purchase.
- Product specific requirements must be met. For Conventional HFA product requirements – refer to the [Fannie Mae HFA Preferred™](#), [Fannie Mae HFA Preferred Risk Sharing™](#), and [Freddie Mac HFA Advantage®](#) product descriptions on [Minnesota Housing's website](#).

### 8.02 Minnesota Housing Documentation/Delivery Requirements

U.S. Bank – HFA Division provides the Delivery Checklist form detailing specific documentation and delivery requirements. The Lender must fully execute and deliver documents within designated timeframes. In addition, the Lender must specifically warrant the following:

- The Lender has reviewed any and all contracts in connection with the residence sale transaction to ensure total compliance with this Procedural Manual.
- The 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 and other program requirements.

- The following Minnesota Housing program documents are signed at closing, or as close to closing as possible:
- The Borrower Affidavit is signed, and duly notarized, by each Borrower who signs the note and intends to reside in the property as their Principal Residence.
- The Property Seller Affidavit or Fannie Mae or Institutional Seller Property Affidavit is signed, and duly notarized, by those persons conveying the residence or land to the Borrower(s).
- The [Subsidy Recapture Disclosure Statement and Tennessee Warning](#) is complete and signed by each Borrower
- Documentation not delivered to U.S. Bank – HFA Division within the specified time frames may result, at Minnesota Housing’s or U.S. Bank – HFA Division’s discretion, in the Lender repurchasing the loan, or any other remedy as identified in this Procedural Manual. Minnesota Housing or U.S. Bank – HFA Division may also, at their discretion, extend the aforementioned timeframes.

### **8.03 Records Retention**

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

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



## **Chapter 9 – Servicing**

### **9.01 Servicing**

Loans committed in connection with the Start Up Program are purchased by U.S. Bank—HFA Division. Minnesota Housing may, at its discretion, subject to any contractual provisions between Minnesota Housing and U.S. Bank – HFA Division, change the Master Servicer.

### **9.02 Lender Servicing Responsibilities**

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to U.S. Bank – HFA Division purchase, the Lender must collect and apply all loan payments for the Start Up Program Loan, the Monthly Payment Loan, and the Deferred Payment Loan Program, if applicable, made by the Borrower(s). Loan payments collected must include:

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

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

- Maintain payment history indicating:
  - The breakdown of principal, interest, and escrows
  - Any principal repayments
  - The remaining principal balance of the loan
  - The collection of any past due payments

### **9.03 Assumption/Due-On-Sale**

A Minnesota Housing loan financed with either a Conventional loan 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 Veterans 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 purchased with the proceeds of the loan) during the three year period preceeding the day the Borrower(s) 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](#))
- 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.

#### **9.04 Hardship Policy**

Minnesota Housing has in place a hardship policy for its Monthly Payment Loan and the Deferred Payment Loan Program that allows forgiveness either in part or whole if the Borrower is experiencing severe financial hardships that prevent them from paying back the full indebtedness.

## Appendix A: Definitions

TERM	DEFINITION
Acquisition Cost	The cost of acquiring a completed residential unit (see Section( 4.03).
Annualized Gross Income	Gross monthly income multiplied by 12.
Borrower	A person who receives funds in the form of a loan secured by real property with the obligation of repaying the loan and, in addition, any person purchasing the real property securing the loan, executing the promissory note, executing a guarantee of the debt evidenced by the promissory note, or signing a security instrument in connection with a loan.
Co-Signer	A party that is obligated to repay the loan. A Co-signer assumes only personal liability and has no ownership interest in the property.
Disabled Household Member	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.
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 3.05 of this Procedural Manual.
Master Servicer	A company selected by Minnesota Housing to purchase, securitize and service mortgage loans originated pursuant to Minnesota Housing’s mortgage loan programs.
New Construction or Newly Constructed Residence	New Construction or a Newly Constructed Residence refers to a residence, which either has never been occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e. a contract-for-deed, mortgage, or gap loan).
Participation Agreement	The Participation Agreement for Minnesota Housing Single Family Programs executed between the Lender and Minnesota Housing that allows the Lender to participate and offer Minnesota Housing’s Start Up and Step Up mortgage loan programs.
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 their household.

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TERM	DEFINITION
Program Eligibility Income	See Section 3.09. Any of several different types of earned or unearned income claimed by the Borrower (see <a href="#">Eligibility Income Worksheet</a> for guidance). Types of income include, but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
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 as outlined in its entirety in Section 3.07 of this Procedural Manual.
Sole head of household with at least one Eligible Dependent	<ul style="list-style-type: none"> <li>• Sole head of household with at least one Eligible Dependent residing in the household.</li> <li>• An Eligible Dependents is:               <ul style="list-style-type: none"> <li>○ A minor household member (under 18 years of age on the closing date);</li> <li>○ A Disabled household member; or</li> <li>○ A senior (age 62 or older on the closing date).</li> </ul> </li> <li>• Limitation: The household must include only one adult that is not an Eligible Dependent.</li> </ul>
Temporary Financing	Initial financing such as a construction loan, bridge loan, and contract for deed with a term of 24 months or less.
True and Certify	The loan-level process in Minnesota Housing’s loan commitment system completed by the Lender that certifies all the information entered into the system is true and accurate.

## **Appendix B: Forms List**

See [Minnesota Housing's website](#) for required [Start Up Program forms](#) as well as the Start Up Program Process Guide and optional forms.