Minnesota Families Affordable Rental Investment Fund (MARIF) Program

MONITORING REQUIREMENTS

Tenant incomes, rents, affirmative action and equal opportunity requirements will all be monitored over the life of the loan, whether it is a first mortgage or a deferred. Monthly operating reports will be required for first mortgages.

AUDITS/YEAR END FINANCIAL STATEMENTS

If the development has a Minnesota Housing Finance Agency (MHFA) First Mortgage, financial statements will be required and audited by an independent CPA. Owners should direct questions to the housing management officer responsible for monitoring the development.

Requirements for MHFA-financed developments are normally recorded in Section 7 ("Affirmative Covenants of Mortgagor") of the Regulatory Agreements.

Deferred Loans – Financial statements and a year-end audit, review or compilation may be due upon request of Agency staff.

***Note**: **New deadline for audits is 90 days after fiscal year-end.**

BUDGETS/RENT INCREASES

First Mortgages

Annual proposed budgets for developments with a fiscal year end of December 31, must be received by the Agency no later than October 31. All others must be received at least 60 days prior to the budget's effective date. Rent increases may not occur more than once annually, must comply with the terms of the lease, and must be accompanied by a rent roll, a proposed schedule of rental rates, and an operating budget along with back-up documentation demonstrating the need for the proposed increase. Requests for increases **must be submitted in writing and approved by Agency staff.**

Deferred Mortgages

Increases in gross rent levels for the development must be made in writing to the agency. The request may not occur more than once annually and must comply with the terms of the lease. The rate of the increase generally may not exceed the amount needed to meet the monthly operating expense budget for each unit. To request a rent increase, complete the Request for Rent Increase form and fax a signed form to Judith Leatherwood at (651)296-9545.

FILE REVIEW

First Mortgages

The housing management officer should confirm that the file contains a third party verification showing that the tenant is a current or a recent (previous 24 months) Minnesota Family Investment Program (MFIP) recipient and whose income at the time of application is equal to or less than 160 percent of the federal poverty level for the family's size. (See page 4, (c)(1) - Poverty Guidelines located in the MARIF Program Guidelines). **Sixty percent of the MARIF units must meet this requirement.** Families whose income does not exceed 30 percent of metro median income may occupy the remaining MARIF units. The state median income is provided by the U.S. Department of Housing and Urban Development (HUD) and updated annually.

Initially, for acquisition/or rehabilitation, the borrower will be required to contact each household prior to mortgage commitment and have them disclose their income on a tenant income verification form. Look for this initial form to help ensure file review compliance.

<u>Market Rate development with MARIF units</u>: At the time of the physical inspection, site files will be reviewed on each MARIF unit chosen for inspection.

<u>100 percent MARIF development</u>: A pre set number of MARIF tenant files will be reviewed. The number will vary from development to development.

For all MARIF developments, staff will:

1. Compare the most recent MARIF Activity Report to the actual file. (See Judith Leatherwood for training/questions).

2. Confirm that rents are the same as those approved by the agency. (See Rent Limits below). Remember that the approved rents are considered "Gross Rents." Verify if there is a utility allowance that this is subtracted out accordingly to ensure that the resident is paying the correct amount. ***When calculating the residents' portion of rent to be paid, this should be based on the resident's gross income and not adjusted gross income.***

3. Confirm Eligibility: Confirm that the applicant is a current or recent MFIP participant (must meet 60 percent requirement) with the remaining units household incomes at the time of initial occupancy, of no more than 30 percent. Household income was verified by a third party. If unit is a tax credit or is subsidized, those verifications are acceptable.

4. Confirm annual income and MFIP participant certifications: Re-certifications are being done by the owner/agent on an annual basis. Leases must be for a minimum of six months and shall not exceed one year.

5. Substantiate that the Social Security Number is listed for (a) the head of household, or (b) the MFIP qualified person.

6. Confirm proper utilization of units: Units should be rented to family sizes appropriate to the unit size, with a ratio of at least one person per bedroom.

7. Confirm selection criteria: Include MARIF program participants and considerations of the program.

8. Confirm screening criteria: The Agency suggests (but does not require) that tenant standards be relaxed. (See sample located in MARIF Program Guidelines page 10, IV (A)(7) - Screening.

9. Confirm marketing: The owner/agent shall demonstrate that they have established links with city and county social services, employment services, schools, HRAs, etc. All MARIF units must be marketed to current and recent MFIP participants.

10. Confirm: Security deposits for the MARIF units are calculated at 30 percent of the tenant's monthly gross income or at the development's standard deposit amount, whichever is less.

11. Confirm: That a MHFA Government Data Practices Act Disclosure Statement form and Attachment 5 is signed and dated by the head of household, spouse, co-head and all residents 18 and older.

Deferred Loans

In the years that the development does not have a physical inspection, the MARIF unit tenant files need to be submitted to the agency upon request only.

All other areas of the file inspection will have the same tasks as a First Mortgage.

ELECTRONIC TRACKING
MARIF Activity Report

Managing Agents must submit the completed annual report through the Minnesota Housing Secure Login System. It is important that the tenant paid rent and utility allowance are tracked accurately on this report, as the owner must mail a certification to the MHFA, stating that information contained in the report is true and correct. The reporting period is from **January 1,** through **December 31**, and must be submitted on or before **February 15.**

Information must be tracked as to what type of housing tenants are moving to (home ownership, market rate rental, subsidized, etc.), at the time they move from this development. This program is designed to encourage residents to purchase a home. Tracking this information will assist in measuring this progress.

INSPECTIONS

First Mortgage

At least once annually, the HMO must contact the owner or property manager, set a date, and conduct a physical inspection of the property. The owners or agent must walk through the property with the HMO, inspecting all of the common areas, mechanical rooms, roof, grounds, etc., plus 10 – 15 percent of the occupied and all vacant units to assure maintenance of the units is in decent, safe and sanitary condition.

MARIF units should be considered as part of the overall 10 percent first mortgage inspection requirement. If the project has a mix of market rate and MARIF units, both MARIF units and general occupancy units should be inspected.

Deferred Loans

Physical inspections will be conducted on the property as follows:

1) Every two (2) years for loans over $500,000;

2) Every three (3) years for loans with Housing Tax Credits (HTC)

3) Every five (5) years for loans between $499,999 and $100,000; and

4) For loans under $100,000 will be on a ten (10) year random schedule.

Inspections will follow the guidelines outlined under “First Mortgage.”

PROGRAM GUIDELINES

Rent Limits: (Note: <u>The approved rent amount is considered “gross rent” and utility allowances must be reviewed and properly calculated. (See Utility Allowance section below)</u> **In all cases when determining the resident portion of rent to be paid, use the gross income method and not the adjusted gross income method.**

1. <u>100 percent MARIF development</u>: **Rents are capped at the Fair Market Rent (FMR)**. When a tenant’s income increases, their rent will increase to the equivalent of 30 percent of their gross income, up to the FMR. If their annual recertification indicates the tenant rent is equivalent to the FMR, the tenant will receive a lease renewal letter stating that, if their income remains the same or increases, upon the lease expiration they are encouraged (but not required) to move into home ownership or unsubsidized housing.

2. <u>Market Rate development with MARIF units:</u> The gross rent for the MARIF units may not exceed the FMR until 30 percent of the tenant’s income exceeds the FMR.

   Example 1:

   $700 Market Rate rent (rents are capped here)

   $650 FMR for 3-bedroom unit

$450 MARIF rent

Resident earning $18,000 or less pays $450 MARIF rent ($18,000 x 30% / 12 = $450)
Resident earning $19,000 pays the $475 rent ($19,000 x 30% / 12 = $475)
Resident earning $26,000 pays the $650 FMR rent ($26,000 x 30% / 12 = $650)

The maximum gross rents (contract rent plus the utility allowance) **for MARIF units may increase above the FMR, but *may not exceed* the market rate rent.** A MARIF unit will be considered a market rate unit upon reaching the comparable market rate rents. Should this occur, the next available vacant unit must be rented to a MARIF applicant.

Example 2:

$700 Market Rate rent (rents are capped here)

$650 FMR for 3-bedroom unit

$450 MARIF rent

Resident earning $26,000 pays the $650 FMR rent ($26,000 x 30% / 12 = $650)
Resident earning $29,000 pays the $700 Market rent because rents are capped at this amount ($29,000 x 30% / 12 = $725)

Utility Allowances:

Utility allowances must always be considered when determining the resident's portion of the rent. If the MARIF rent for a three bedroom unit is $450 and the utility allowance is $50, the resident will pay the actual contract rent of $400 and use the remaining $50 to pay their utilities. Acceptable utility allowances are those provided by public housing authorities on a Section 8 utility allowance schedule.

3. MARIF units covered by tenant based subsidy (Section 8 vouchers) or Project Based Section 8:

   MARIF rents may be set at the area's FMR. Tenants may use vouchers to pay their rent, up to the FMR. The resident will pay 30 percent of their **gross** income or MARIF rent, ***whichever is greater***. Their income must be recertified annually on their move in date and adjusted to meet this requirement until 30 percent of their income puts them at FMR.

   MARIF units with residents who do not have housing vouchers:

   Tenants will pay ***the greater of*** 30 percent of their gross income or the applicable MARIF rent. Currently, MARIF gross rents are:

2 Bedroom	$400 per month
3 Bedroom	$450 per month
4 Bedroom	$475 per month

In a mixed income development, the MARIF units will float among the others and not be designated units, but the number of bedrooms and unit sizes must remain the same. If a MARIF unit becomes a market rate unit, the next available unit rule would be invoked.

Utility Allowances:

Utility allowances must always be considered when determining the resident's portion of the rent and subtracted out accordingly. If the MARIF rent for a three bedroom unit is $450 and the utility allowance is $50, the resident will pay the actual contract rent of $400 and use the remaining $50 to pay their utilities. Acceptable utility allowances are those provided by public housing authorities on a Section 8 utility allowance schedule.

Income Limits:

All MARIF units must be marketed to current and recent MFIP participants.

At least 60 percent of the MARIF units must be occupied by family households who at the time of application are current or recent MFIP participants and whose income at the time of application is equal to or less than 160 percent of the federal poverty level for the family's size.

The remaining MARIF units must be occupied by family households whose income at the time of initial occupancy is no more than 30 percent of metro median income (adjusted for families of five or more).

Income recertifications will occur annually on the anniversary of their move-in date, and tenant rents will be adjusted accordingly. Verifications must generally be made by a third party, such as the applicant's financial worker or employer. One interim recertification will be allowed annually, in which tenant rent can be lowered to reflect a reduction in tenant income.

OPERATING SUBSIDY

<u>First Mortgage/Deferred Loans</u>

An operating subsidy may be funded using one or both methods outlined below:

Six Month MARIF Operating Reserve: During the underwriting phase, the MARIF team will review an owner's request for this reserve. They will determine whether the development qualifies as part of the total development cost. It is funded from MARIF funds at closing, and is held by the MHFA in a separate reserve account. Not all developments that have MARIF attached will have/qualify for an Operating Reserve.

If the development has Project Based Section 8 units or residents have housing vouchers: Before the development will be required to fund this reserve, the owner must begin receiving their maximum allowable distribution under the terms of their first mortgage. Prior to receiving the maximum distribution the excess MARIF income remains with regular development operations.

Once the maximum distribution has been attained, Minnesota Housing requires the owner to create a separate operating reserve account to hold these excess MARIF funds. This account will be held by the owner and funded annually after the financial statements are submitted to and reviewed by the agency.

Minnesota Housing will require all developments to annually certify the amount of distribution being taken. www.mnhousing.gov/housing/servicing/MHFA_004835.aspx

Determining Excess Income: The development can charge area FMRs for either a specific Project-Based Section 8 unit or a floating housing voucher unit. The difference that is realized will be considered excess income. In some cases, an exception rent may be charged at approximately 120 percent of FMR.

$500	Area FMRs
- $400	MARIF rents
=$100	MARIF excess income

The MARIF subsidy operating reserve accounts can be released back to the specific developments as needed. (MHFA will be responsible for determining whether or not the development qualifies for release of these funds). Any money remaining in the reserve account at the end of 30 years goes back to the MARIF program. It does not remain with the development.

PARTNERSHIP DISTRIBUTION

First Mortgage and Deferred Loans

Distribution is limited to 10 percent of the initial equity investment (indicated on the 402) for **new construction**. ***Note--***This limitation applies to the **entire** development, not just the MARIF units*. There is *no* limit set for the rehabilitation of an existing rental housing development. In the MARIF Regulatory Agreement, the language has been removed which states that since the "Agency does not allow cumulative distributions, the partnership distribution cannot be recovered in future years"