



Tax-Exempt Bonds Informational Guide

*Applicable for the 2023 and 2024 Multifamily Request for
Proposals (RFP) and 2024 and 2025 Housing Tax Credits
(HTC) Funding Rounds*



The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, creed, national origin, sex, religion, marital status, status with regard to public assistance, disability, familial status, gender identity, or sexual orientation in the provision of services.

An equal opportunity employer.

This information will be made available in alternative format upon request.

Table of Contents

Introduction¹	5
<i>Statutory Requirements</i>	5
<i>What are Tax-Exempt Bonds?</i>	5
<i>What Types of Tax-Exempt Bonds Does Minnesota Housing Currently Use to Finance Multifamily Construction?</i>	5
<i>What is Minnesota Housing’s Annual Volume Cap for Tax-Exempt Volume Limited Bonds, and How is it Determined?</i>	6
<i>How do Bonds Interact with Other Minnesota Housing Funding Sources?</i>	6
<i>What is the Process for Securing 4% Housing Tax Credits</i>	7
Chapter 1 – Selection Underwriting	8
1.01 <i>Deal Structure</i>	8
1.02 <i>Analysis and Bond Tests</i>	8
Chapter 2 – Post-Selection Process	11
2.01 <i>Reimbursement Declaration</i>	11
2.02 <i>Tax Equity and Fiscal Responsibility (TEFRA) Hearing</i>	11
2.03 <i>Bond Fees</i>	11
2.04 <i>Underwriting</i>	12
2.05 <i>Bond Team Communications and Process</i>	12
Chapter 3 – Approvals	15
3.01 <i>Mortgage Credit Committee</i>	15
3.02 <i>Minnesota Housing Board</i>	15
3.03 <i>42M Application and Preliminary Determination Letter</i>	15
Chapter 4 – Closing of Minnesota Housing Bridge Loans	16
4.01 <i>Loan Commitment</i>	16
4.02 <i>Preliminary Official Statement (POS)</i>	16
4.03 <i>Pricing and Closing on the Bonds</i>	16
4.04 <i>Post-Closing</i>	17
Chapter 5 – Fair Housing Policy	18
Chapter 6 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting	20
6.01 <i>Fraud</i>	20
6.02 <i>Misuse of Funds</i>	20
6.03 <i>Conflict of Interest</i>	20
6.04 <i>Suspension</i>	21

6.05	<i>Disclosure and Reporting</i>	21
Appendix A – Sample Documents		22
	<i>Sample Organization Charts</i>	22
Appendix B – Terms		24

Introduction¹

Statutory Requirements

Tax-Exempt Bonds must comply with the applicable requirements of Internal Revenue Code (IRC) Sections 103 and 141 through 150. Tax-Exempt Volume Limited Bonds issued in Minnesota for residential rental housing projects must also comply with the requirements of [Minnesota Statutes Section 474A.047](#).

What are Tax-Exempt Bonds?

Tax-Exempt Bonds are municipal bonds the interest on which is not included in gross income for purposes of federal income taxation. If, as in Minnesota, the interest of Municipal Bonds issued by the state of Minnesota or an entity or political subdivision created by the state is exempt from state income taxation, those Municipal Bonds are known as double exempt. Many Minnesota Housing obligations are exempt from federal and Minnesota personal income tax to residents of Minnesota.

What Types of Tax-Exempt Bonds Does Minnesota Housing Currently Use to Finance Multifamily Construction?

Minnesota Housing issues several types of Tax-Exempt Bonds for multifamily housing, including:

- **General Obligation Bonds:** Minnesota Housing's General Obligation Bonds are payable from any of Minnesota Housing's funds not specifically pledged to other obligations and are secured by a pledge of full faith and credit of Minnesota Housing for timely payment of principal and interest to the bondholder. Minnesota Housing does not currently issue any Tax-Exempt Bonds that are secured solely by its full faith and credit pledge.
 - **Rental Housing Bonds** fall under this category, even though they are also secured by, and repayment is expected from, revenues received from repayment of the loans made with the proceeds of the Bonds. Minnesota Housing issues Rental Housing Bonds to finance loans for multifamily housing developments.
 - Rental Housing Bonds must be Tax-Exempt Volume Limited Bonds in order to qualify a multifamily housing development for 4% Housing Tax Credits (HTC).
- **Revenue Bonds:** Revenue Bonds are payable from, and secured only by, the earnings of a revenue-producing enterprise, a mortgage loan or a portfolio of loans.
 - **Conduit Bonds** fall under this category. Minnesota Housing may issue Conduit Bonds when the multifamily housing development will not have a first mortgage loan from Minnesota Housing. Short-term Conduit Bonds may also be Cash Collateralized; the repayment of the loan to the borrower is secured solely by cash advanced from other long-term funding sources as the borrower incurs development costs.

¹This guide is provided solely for general informational purposes. It is not providing legal or financial advice. Minnesota Housing is not responsible for any decision-making based on the information set forth in this guide. Interested parties wishing to utilize Tax-Exempt Bonds should obtain advice from independent sources, including consultation with knowledgeable legal counsel and Bond professionals.

- **State Appropriation Bonds**

- **Housing Infrastructure Bonds (HIB)** are neither Revenue Bonds nor General Obligation Bonds. HIBs are payable from funds the state has promised to appropriate each year to pay debt service.
 - There are several types of HIBs. Some are Tax-Exempt Volume Limited Bonds that qualify a multifamily housing development for 4% HTC when used to finance not less than the then required bond percentage of the aggregate basis of building and land set forth in Section 42 of the IRC.

For more information on HIB, refer to the [Housing Infrastructure Bonds Guide](#).

What is Minnesota Housing’s Annual Volume Cap for Tax-Exempt Volume Limited Bonds, and How is it Determined?

Federal tax law governs how much each state is allocated each year in volume cap for Tax-Exempt Volume Limited Bonds and when any allocated volume cap expires. It is determined for each state by a multiplier of that state’s population. For example, in 2023, it is \$120 times the state population. State law determines how the state cap on the amount of Tax-Exempt Volume Limited Bonds that may be issued each year is allocated between the issuers of Bonds in that state. [Minnesota Statutes Chapter 474A](#) describes the allocation process.

Minnesota Housing is an “entitlement issuer” under state law and is allocated a designated percentage of the state’s volume cap each year. It also is the transferee of all unused state volume cap (other than volume cap allocated to other entitlement issuers) at the end of each year.

Minnesota Housing’s portion of the state’s volume cap for Tax-Exempt Volume Limited Bonds varies from year to year. For 2023, Minnesota Housing was allocated \$157,941,547 as its entitlement issuer portion. The additional amount, which automatically transfers to Minnesota Housing at the beginning of December of each year if no other issuer has requested it, has varied greatly. The Minnesota Department of Management and Budget (MMB) administers state volume cap allocation for issuers in the state, including Minnesota Housing.

How do Bonds Interact with Other Minnesota Housing Funding Sources?

Low and Moderate Income Rental (LMIR) First Mortgage. When Minnesota Housing issues Tax-exempt Bonds to finance a LMIR mortgage, either one or two series of Bonds may be issued. Long-term Bonds fund the long-term LMIR loan. Short-term Bonds fund a bridge loan. The bridge loan typically bridges a portion of the tax credit equity. Together, both series of Bonds must be in an amount sufficient to fund at least the then Required Bond Percentage of the aggregate basis of the building and land in order for the multifamily housing development to be eligible to receive 4% HTC. For additional information on how to qualify for housing tax credits, refer to [Chapter 7 of the 2024-2025 HTC QAP](#).

Recently, Minnesota Housing has only issued short-term Rental Housing Bonds to fund LMIR Bridge Loans. LMIR long-term end loans are funded from other Minnesota Housing sources.

NOTE: LMIR Bridge Loans are not United States Department of Housing and Urban Development (HUD) insured, and LMIR long-term end loans are not made or HUD-insured until after construction completion.

Preservation Only. Conduit Bonds may be issued, either by Minnesota Housing or by another issuer, when Minnesota Housing does not make a first mortgage loan to benefit a multifamily housing development but the first mortgage loan is made by another lender. The development may be financed with Conduit Bonds and a deferred subordinate lien loan from Minnesota Housing. Minnesota Housing does not currently provide Conduit Bond financing for multifamily housing developments that are not for the preservation of affordable rental units and for which there are not significant barriers to issuance by another governmental issuer.

What is the Process for Securing 4% Housing Tax Credits

Minnesota Housing is a housing credit agency for housing tax credits in Minnesota. There are also certain cities and counties that act as designated housing credit agencies or suballocators for their jurisdictions. These suballocators are the cities of Minneapolis and St. Paul along with Dakota County and Washington County. When an issuer in the state receives an allocation of the state's volume cap for a multifamily housing project, pursuant to Section 42 of the IRC, the sponsor of that project must separately request an award of 4% Housing Tax Credits (HTC) from Minnesota Housing (or the applicable housing tax credit suballocator based on the issuer and the location of the housing project) in order to obtain a preliminary determination of eligibility for those credits, known as a 42M letter. Refer to [Chapter 7 of the 2024-2025 HTC QAP](#) for more information on the process and requirements of projects financed by tax-exempt volume limited bonds seeking HTC

Chapter 1 – Selection Underwriting

1.01 Deal Structure

Loan Amount. For bridge loans financed by short-term Rental Housing Bonds, the bridge loan should be sized to cover both the LMIR long-term mortgage and the portion of tax credit equity that requires bridging, subject to the limitation on the amount of Bonds described in the next paragraph. Bonds are issued in \$5,000 increments in an amount equal to the loan amount; round up to the nearest \$5,000. The borrower should determine the appropriate bridge loan sizing so that the project will meet the Required Bond Percentage test for 4% HTC.

Ultimately the borrower’s counsel and the tax credit syndicator’s counsel, with the assistance of their accountants, will make the final determination of the amount of Tax-Exempt Volume Limited Bonds needed to satisfy the Required Bond Percentage test. The borrower should size the Bonds including a buffer of up to, but not in excess of, 3% to make sure that the multifamily housing project satisfies the Required Bond Percentage test.

Bridge Loan Term. The bridge loan will have a minimum loan term of approximately 18 months and will mature one month prior to maturity of the Bonds. The loan may be prepaid at the option of the borrower, but not earlier than one month prior to the first date that the Bonds can be redeemed at the option of Minnesota Housing (not less than 12 months after issuance); this should be discussed with Minnesota Housing if this option is desired. The loan term may be longer based on the construction schedule and schedule of equity installments.

NOTE: The bridge loan may have a different minimum term if long-term Bonds are also issued for the same multifamily housing development.

Interest Rate. The interest rate on the Bonds will be determined at the time of the sale of the Bonds. The interest rate on the bridge loan will equal the interest rate on the Bonds, plus 1.0%. For example, if the interest rate on the Bonds is 2.25%, the interest rate on the bridge loan will be 3.25%. Once the multifamily housing development has been selected and the loan is near closing, the investment banker underwriting Minnesota Housing’s Rental Housing Bonds will provide an estimated interest rate until the Bonds are priced.

NOTE: The borrower must pay interest on the total amount of the loan from the time the loan is closed but will receive a credit for interest earned on proceeds of the Bonds until expended for development costs, less any earnings required to be rebated to the federal government because such earnings are in excess of the yield on the Bonds.

1.02 Analysis and Bond Tests

Scattered Site Projects. For a scattered site development, each separate site must meet the income set-aside, the Required Bond Percentage test, the rehabilitation test, the good cost/bad costs test and Minnesota’s Fair Market Rent (FMR) test.

Ownership Assessment. Organizational charts for the current and future ownership entities showing the ownership percentage of cash flow and residuals must be sent to Minnesota Housing post-

selection. Minnesota Housing's finance counsel will determine what, if any, additional costs are ineligible to be Bond financed (bad costs) because of the relationships between the parties and if there are sufficient eligible costs (good costs) to support the loan amount. Refer to Appendix A for sample organizational charts pre- and post-sale.

NOTE: If the developer is a related party to the borrower, the developer fee may be ineligible to be financed with Bond proceeds. Special attention should be paid to the Good Cost/Bad Cost analysis due to the potential of developer fees, general contractor fees and overhead, or architect's fees not being eligible to be reimbursed with Bond proceeds.

Required Bond Percentage Test. The threshold requirement for a development to qualify for 4% HTC is the use of the proceeds of Tax-Exempt Volume Limited Bonds to pay for at least the Required Bond Percentage of the total aggregate basis of the building and land set forth in Section 42 of the IRC through the placed-in service date. To initially estimate the Bond amount required, use this equation:

Bonds required for Required Bond Percentage test = Required Bond Percentage*(total aggregate basis + land acquisition cost)

This is a rough estimate that may be used during initial selection. The borrower should consult with their accountant to help ensure that the project meets the Required Bond Percentage test as set forth in Section 42 of the IRC.

Good Costs/Bad Costs. Certain eligible development costs, also known as good costs, may be allocated to the proceeds of Tax-Exempt Bonds, while other ineligible (bad) costs may not. There must be sufficient good costs to support the final loan amount.

Good costs and bad costs are listed on the Bond Tests Analysis spreadsheet under the Bond Costs from Workbook tab. Some bad costs will not automatically categorize and will need to be adjusted manually. For example, developer fees, general contractor overhead and profits (i.e. amounts not payable by the general contractor to a third party), or architect's fees are considered bad costs when there is an identity of interest between the borrower and one of these parties, since payments to related parties (as defined by federal tax law) may not be financed with proceeds of Tax-Exempt Bonds. Complete the ownership assessment described above to help determine good/bad costs.

If a multifamily housing development contains commercial or non-residential space, costs related to those portions of the development are considered bad costs.

If at any time during post-selection there are updates to good/bad costs, please send that information to the Minnesota Housing underwriter. Minnesota Housing's finance counsel and Bond counsel make the final determination of whether there are sufficient good costs to support the amount of Bonds; however, Minnesota Housing finance counsel and Bond counsel make no determination as to satisfaction of the Required Bond Percentage test for purposes of 4% HTC. The borrower's accountant must determine this.

Rehab/Acquisition Ratio. Rehabilitation expenditures must be equal to or exceed 15% of the portion of the costs of acquiring the building financed by Bonds.

$$\frac{\text{rehabilitation costs}}{(\text{building acquisition} - \text{land cost}) \text{ financed by Bonds}}$$

This calculation is included in the Bond Tests Analysis, Bond Costs tab.

Income Restrictions. For the multifamily housing project to qualify for 4% HTC or Tax- Exempt Volume Limited Bond financing, units must be income-restricted to meet the requirements of IRC Section 42 and Section 142(d), with a minimum set-aside of either 40% of units at 60% of area median income or 20% of units at 50% of area median income.

State Requirements Applicable to Tax-Exempt Volume Limited Bonds.

- FMR Rents – 20% of units: At least 20% of units must have rents at or below [Fair Market Rent \(FMR\)](#) or exception FMR for existing housing. Units that have project-based federal rental assistance (e.g., Section 8) are deemed to meet this condition.
- Extend Affordability/Rental Assistance: The borrower must agree to extend any existing affordability restrictions and any rental assistance agreements for the maximum term permitted.
- Developments with existing project-based rental assistance must have project reserves at the time of Bond issuance and maintained in future years at the lesser of (1) the greater of 40% of the outstanding first mortgage or \$5,000 per unit, or (2) the amount of reserves at the time of Bond issuance, provided sufficient funds are available at Bond issuance to complete immediate repairs.

Chapter 2 – Post-Selection Process

2.01 Reimbursement Declaration

After selection, Minnesota Housing will execute the declaration of intent to reimburse costs of the project from the proceeds of Tax-Exempt Bonds. That declaration of intent allows eligible costs incurred and paid up to 60 days prior to execution of the declaration to be reimbursed with proceeds of Tax-Exempt Bonds. Certain preliminary expenditures are reimbursable even if incurred and paid earlier (e.g. architect, engineering, surveying, soil testing), but not land acquisition or site preparation. The reimbursement declaration does not expire.

NOTE: If land or existing structures are or have been acquired by the borrower or a related party to the borrower before 60 days prior to the execution of the reimbursement declaration, those costs are ineligible to be financed with Bond proceeds. Special attention should be paid to the Good Cost/Bad Cost analysis due to the potential of acquisition costs not being eligible to be reimbursed with Bond proceeds.

2.02 Tax Equity and Fiscal Responsibility (TEFRA) Hearing

Minnesota Housing will notice and hold a TEFRA public hearing for all multifamily housing projects to be financed with the proceeds of Tax-Exempt Bonds. The principal amount of Bonds stated in the notice of the TEFRA hearing may include a buffer over the anticipated amount of the Bonds. Following the TEFRA public hearing, Minnesota Housing will request the governor to approve the issuance of Tax-Exempt Bonds for each project. The Bonds must be issued within one year of the governor's approval or another approval must be requested and obtained.

2.03 Bond Fees

The borrower and the Minnesota Housing underwriter must make sure that appropriate Bond fees are included in the Workbook. The fees are preliminary estimates and are subject to change until the Bonds are issued.

Bond fees in conjunction with Minnesota Housing short-term Rental Housing Bonds:

- Issuance fee (covers, among other things, fees of Bond counsel, fees of investment banker, rating agencies, Bond trustee):
 - \$100,000 plus
 - 0.75% of principal amount of Bonds
- LMIR Bridge/construction loan origination fee:
 - 0.50% of bridge loan amount

An origination fee for both the LMIR long-term and bridge loans and a Minnesota Housing inspection fee must also be included in the Workbook.

Conduit Bond Fees:

Fees and costs will vary depending on the structure of the Bonds being issued, but may include:

- Origination fee
- Financial advisor fees
- Bond counsel fees
- Semiannual fee during term of Bonds

2.04 Underwriting

From selection to closing, the borrower must submit an updated Workbook to the Minnesota Housing underwriter whenever there are changes. **The borrower and Minnesota Housing underwriter must monitor changes to make sure they do not affect the Bond Tests Analysis completed previously, especially in relation to good costs.** Additionally, if the amount of Bonds changes, fees must be adjusted accordingly.

Prior to an internal, decision-making approval, the borrower must provide a letter from their accountant verifying that the amount of the Tax-Exempt Volume Limited Bonds is sufficient to meet the Required Bond Percentage test. A sample letter is available in Minnesota Housing's [Multifamily Customer Portal](#) due diligence checklist.

NOTE: Minnesota Housing will not issue Tax-Exempt Volume Limited Bonds in a principal amount greater than 3% in excess of the Required Bond Percentage of aggregate basis of building and land.

The date Tax-Exempt Volume Limited Bonds are issued affects the following:

- **Applicable Percentage:** The applicable percentage for 4% HTC is based either on the date the project is placed in service or, at the election of the owner, the month in which the Tax-Exempt Volume Limited Bonds are issued. In order to lock in the applicable percentage for the month the Tax-Exempt Volume Limited Bonds are issued, the borrower must sign and submit an Election of Applicable Percentage Agreement. This election must be made no later than the fifth day of the month following the month the Tax-Exempt Volume Limited Bonds are issued. **However, the minimum applicable percentage is 4%.**
- **QAP Scoring:** The project must meet the minimum score for the QAP in the year in which Tax-Exempt Volume Limited Bonds are issued in an amount sufficient to meet the Required Bond Percentage test for 4% HTC.
- **Declaration of Land Use Restrictive Agreement (LURA):** The project must adhere to the tax credit LURA for the year in which the Tax-Exempt Volume Limited Bonds were issued in an amount sufficient to meet the Required Bond Percentage test for 4% HTC. Refer to [Chapter 7 of the 2024-2025 HTC QAP](#) for additional information.

2.05 Bond Team Communications and Process

Bonds with a Minnesota Housing first mortgage. Beginning after selection, Minnesota Housing's underwriter works with the Minnesota Housing's in-house finance counsel on a number of tasks. At

least eight weeks prior to closing, the Minnesota Housing underwriter will send the current Workbook and proposed timeline for closing to the investment banker for Minnesota Housing's Bonds.

The investment banker will communicate timing for issuance of the Bonds with Minnesota Housing's Bond team, beginning at least one month prior to mailing of the Preliminary Official Statement (POS) for the Bonds. The investment banker will submit cash flows to credit rating agencies three to four weeks prior to mailing the POS.

Minnesota Housing's underwriter must communicate to the investment banker and finance counsel any changes made to the project timeline, including changes to the costs of the multifamily housing development that may affect the principal amount of Bonds requested. The borrower must keep Minnesota Housing's underwriter informed of any changes, as changes may cause a delay in loan closing.

Conduit Bond Issue. The Conduit Bond financing structure is determined by the investment banker selected by the borrower, in consultation with Minnesota Housing, instead of by Minnesota Housing's investment banker. The borrower's investment banker leads communications regarding the proposed Bond issuance, manages the distribution list, and sends out the closing timeline. Minnesota Housing's Bond counsel and financial advisor participate with the borrower's investment banker on communications.

Prior to placing a resolution approving the issuance of Conduit Bonds on Minnesota Housing's board meeting agenda, the following must be completed:

- Deposit to be applied to Minnesota Housing's costs (contact Minnesota Housing's underwriter for amount and where to submit)
- Signed Agreement and Indemnification from sponsor (not the single asset entity that will own the project)
- Review of Required Bond Percentage test
- Review good costs/bad costs
- Review buyer and seller ownership structures
- Mortgage Credit Committee approval of the project

Prior to Minnesota Housing's board meeting at which the resolution will be considered, the following must be completed:

- TEFRA hearing held
- Drafts of all financing agreements to be executed by Minnesota Housing and Bond offering documents substantially reflecting the financing structure, and acceptable to Minnesota Housing, must be provided to Minnesota Housing.
- Both the board resolution (prepared by Minnesota Housing's Bond counsel) and the POS (prepared by the investment banker's counsel) need to be sent to the board secretary, in accordance with the schedule for mailing of board materials. The resolution must be in final form; the POS should be close to a final version.

Table 1: Bond Team for Each Type of Transaction

	LMIR Bridge Loan	Conduit Bonds
Borrower's Primary Point of	Minnesota Housing underwriter	Minnesota Housing underwriter
Markets and Sells Bonds	Minnesota Housing's investment banker	Borrower's/ first mortgage lender's investment banker, chosen in consultation with Minnesota Housing
Reviews Good/Bad Costs	Borrower, Minnesota Housing Underwriter, Minnesota Housing's in-house finance counsel and outside Bond counsel	Borrower, Minnesota Housing Underwriter, Minnesota Housing's in-house finance counsel and outside Bond counsel
Determines Final Amount of Bonds for 50% Test	Borrower's accountant	Borrower's accountant
Drafts Preliminary Official	Minnesota Housing's in-house finance counsel	Borrower's/ first mortgage lender's investment banker's counsel
Drafts Resolution for Board Meeting	Minnesota Housing's outside Bond counsel	Minnesota Housing's outside Bond counsel
Presents Board Report for Bridge	Minnesota Housing underwriter	N/A

Chapter 3 – Approvals

3.01 Mortgage Credit Committee

Once Minnesota Housing receives applicable due diligence items from the borrower and final construction bids are in, Minnesota Housing’s underwriter will complete a Mortgage Credit Committee report and present it to the Mortgage Credit Committee for approval. The interest rate for the bridge loan will be determined after the Bonds are priced.

3.02 Minnesota Housing Board

Board approval is required for the LMIR long-term loan as well as the bridge loan and the Bonds issued to finance the bridge loan and long-term loan, if applicable. The amount of each loan set forth in the board report and accompanying resolution may be expressed as a “not to exceed” amount. The amount of the Bonds to be authorized as set forth in the board report and accompanying resolution will be expressed as a maximum principal amount.

The POS must set forth the anticipated principal amount of the Bonds and the loan amount.

3.03 42M Application and Preliminary Determination Letter

Information and application requirements are found in [Chapter 7 of the 2024-2025 HTC QAP](#).

The application for a 4% HTC preliminary determination and all required submissions must be submitted to and approved by Minnesota Housing **prior to issuance of Tax-Exempt Volume Limited Bonds**.

Application Materials

Use of the RFP/HTC application documentation that was submitted with the dual application is permitted; however, some of the documentation will need to be updated after the project has been underwritten and prior to the issuance of Bonds and closing. If use of documentation from the RFP/HTC application is preferred, re-upload that document in the online customer portal under the 42M Application checklist.

Refer [Chapter 7 of the 2024-2025 HTC QAP](#) for a full list of required application documentation.

Preliminary Determination Letter

Based upon the submission of documents, Minnesota Housing will prepare a letter with its preliminary determinations pursuant to IRC Section 42(m)(1)(D) and, if issuing the Tax-Exempt Volume Limited Bonds, Section 42(m)(2)(D) of the IRC. The letter will address whether the project satisfies the requirements for allocation of a housing tax credit dollar amount under the QAP, the housing tax credit dollar amount and project costs.

Chapter 4 – Closing of Minnesota Housing Bridge Loans

Important: Confidentiality and Requests for Information

Minnesota Housing does not include the borrower in the Bond documentation process except in the case of Conduit Bond transactions. If the borrower or their counsel requests information, Minnesota Housing's underwriter refers the borrower to Minnesota Housing's finance counsel. Minnesota Housing's finance counsel is the only party that can release information to the borrower, outside investors, or other parties.

4.01 Loan Commitment

Minnesota Housing's underwriter transfers the file to closing as soon as possible after Mortgage Credit Committee approval. Loan documents can be emailed to the borrower after Mortgage Credit Committee approval. All due diligence items (including the first draw) must be approved, and all loan document comments must be final, prior to executing the loan commitment. The POS for the Bonds will not be mailed, and the Bonds cannot be priced, until the loan commitment has been executed. At the time of signing the loan commitment, the borrower must also pay, by check, the bridge loan origination fee.

Additionally, the following must occur prior to executing the loan commitment:

- HUD risk-share firm approval received
- Section 8 or rental assistance contract executed, if applicable
- Minnesota Housing board approval for the LMIR loan, bridge loan, Bond resolution and POS
- All funding committed
- No other outstanding items

The Minnesota Housing underwriter will notify the Bond team once the commitment has been executed.

4.02 Preliminary Official Statement (POS)

Within a few days of executing the loan commitment, the POS describing the Bonds being offered for sale by Minnesota Housing will be posted.

4.03 Pricing and Closing on the Bonds

Approximately one week after the POS is posted, the Bonds will be priced and the investment banker purchasing the Bonds will execute a contract of purchase with Minnesota Housing. The investment banker schedules the Bond pricing and closing. Bonds are not typically priced on a Monday, Friday, or a day before or after a holiday.

Approximately one to two weeks after the Bonds are priced, the Bond closing occurs. Closings do not typically occur on a Monday, Friday, or a day before or after a holiday.

Minnesota Housing's closer schedules a pre-closing meeting with the borrower on the business day immediately prior to the Bond closing. All remaining documents are executed during or prior to the pre-closing. Syndication proceeds must be received by the title company prior to the pre-closing.

4.04 Post-Closing

Bond Compliance Agreement. The provisions of the Bond Compliance Agreement relating to income and rent requirements begin on the date 10% of units are first occupied and continue through the later of:

- The date the Bonds are paid in full, or
- 15 years from the date 50% of units are first occupied, or
- Termination of the Section 8 contract, if applicable

Minnesota Housing's asset manager monitors the property for compliance under the Bond Compliance Agreement. The Bond Compliance Agreement must be an attachment to the Management Agreement, and the Management Agreement must contain a provision requiring the manager of the project to comply with the provisions of the Bond Compliance Agreement. Additional monitoring requirements include:

- Exhibit B of the Bond Compliance Agreement

Exhibit B is an attachment to the Bond Compliance Agreement. The document is required to be completed when 50% of the units in the project are occupied. Exhibit B is used to document the Bond Compliance Agreement's:

- Commencement date
- End dates of occupancy restriction and rental restrictions

- Annual Certifications

During the compliance period, the following forms may need to be submitted annually to Minnesota Housing (refer to Bond Compliance Agreement)

- IRS Form 8703
- Certification of Compliance form 474A.047

- Financial Reporting and Annual Inspections

In addition to the annual certification, the following financial reporting and oversight may be required by Minnesota Housing:

- Submit monthly operating reports
- Annual budget approvals
- Annual inspections by Minnesota Housing asset manager

Chapter 5 – 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 Title VI of the Civil Rights Act of 1968; the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988; and the Minnesota Human Rights Act. Housing providers and other entities involved in real-estate related transactions 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. Housing providers and other entities involved in real-estate related transactions must comply with all non-discrimination requirements related to the provision of credit, as well as access to services.

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 the making or purchasing of loans for purchasing, constructing or improving a dwelling, or in the terms and conditions of real-estate related transactions;
- Discriminate in the brokering or appraisal of residential property;
- Discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- Discriminate in the extension of personal or commercial credit or in the requirements for obtaining credit;
- 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;
- Refuse to grant a reasonable accommodation or a reasonable modification to a person with a disability;
- 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 6 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

6.01 Fraud

Fraud is any intentionally deceptive action or omission 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 communication channels described in section 6.05.

6.02 Misuse of Funds

A contracting party that receives funding from Minnesota Housing 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 recipient to pay for those activities, goods or services. Regardless of the Minnesota Housing program or funding source, the recipient must use Minnesota Housing funds as agreed and the recipient 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 recipient; or (2) A recipient cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the contract.

Any recipient (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 communication channels described in section 6.05.

6.03 Conflict of Interest

A conflict of interest, actual or potential, 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 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 their responsibilities might be otherwise impaired due to competing duties or loyalties

- 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 or potential conflicts of interest through one of the communication channels described in section 6.05.

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

6.04 Suspension

By entering into any contract 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 contract) has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing's [Suspensions webpage](#) for a list of suspended individuals and organizations.

6.05 Disclosure and Reporting

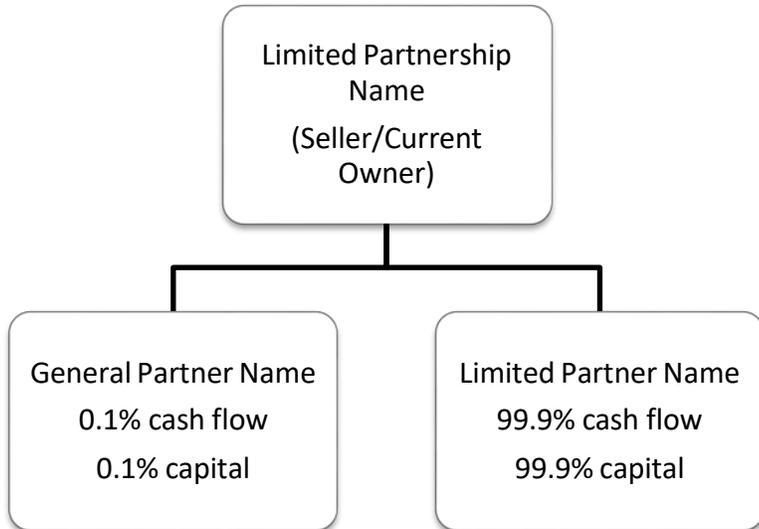
Minnesota Housing promotes a "speak-up, see something, say something" culture whereby internal staff must immediately report instances of fraud, misuse of funds, conflicts of interest, or other concerns without fear of retaliation through one of the communication channels listed below. External business partners (e.g., administrators, grantees, or borrowers) and the general public are strongly encouraged to report instances of fraud, misuse of funds, conflicts of interest, or other concerns without fear of retaliation using these same communication channels.

- Lender's Chief Risk Officer at 651.296.7608 or 800.657.3769;
- Any member of Lender's Servant Leadership Team, as denoted on Lender's current organizational chart (Go to mnhousing.gov, scroll to the bottom of the screen and select About Us, select Servant Leadership Team); or
- Minnesota Housing's [Report Wrongdoing or Concerns webpage](#)

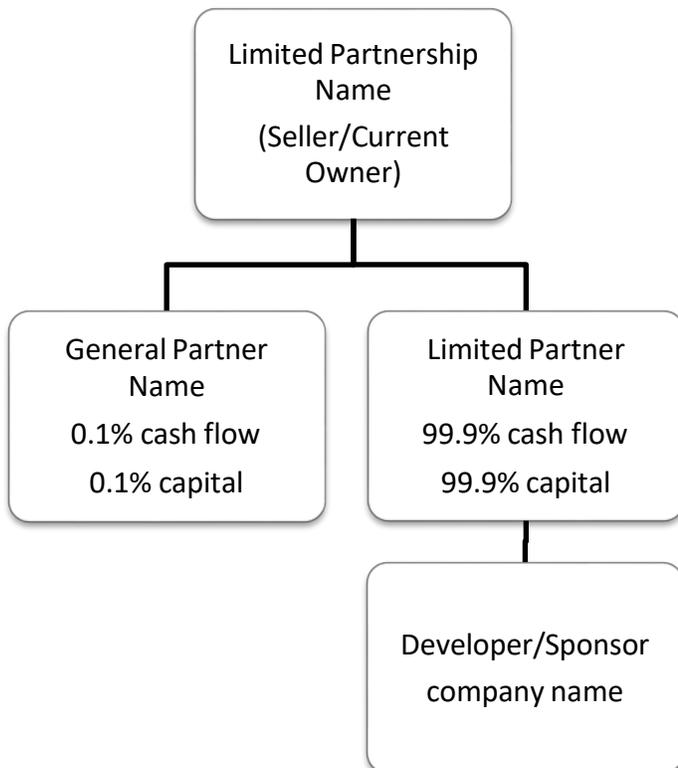
Appendix A – Sample Documents

Sample Organization Charts

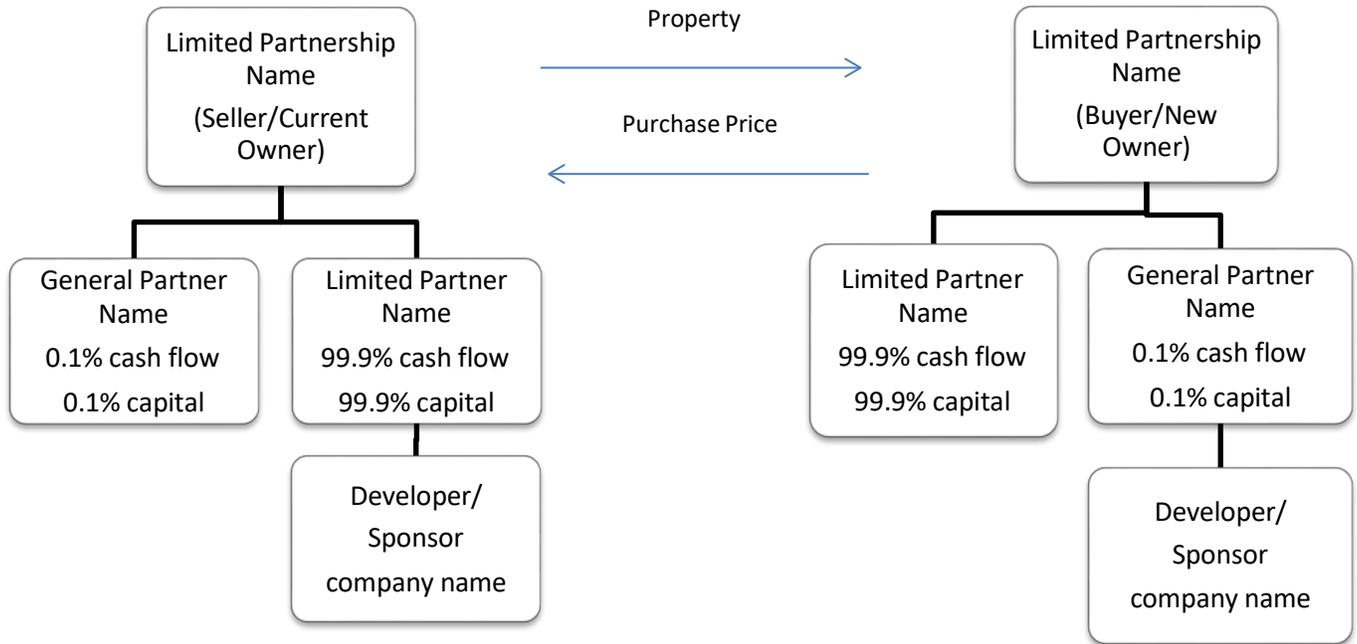
Original Structure of Seller (From Initial Closing – Date)



Structure of Seller following exit of Limited Partner (As of Date)



Structures as of Closing Date for Sale of Project



Appendix B – Terms

Term	Definition
4% Housing Tax Credits	<p>Non-competitive housing tax credits (HTC) that multifamily housing projects qualify for if Tax-Exempt Volume Limited Bonds finance at least 50% of the aggregate basis of the building and land and are outstanding at least until the housing project's placed-in-service date.</p> <p>Multifamily housing projects also must meet the requirements of the applicable year Qualified Allocation Plan (QAP).</p>
42(m)(1)(D)	<p>Internal Revenue Code (IRC) Section 42(m)(1)(D) requires the tax credit allocator to determine that the multifamily housing project complies with the applicable QAP. The applicable QAP is that of the allocating agency responsible for the 42(m)(1)(D) tax credit review. In most jurisdictions, the QAP includes the Housing Tax Credit Program Procedural Manual, which in most cases requires that the multifamily housing project comply with underwriting benchmarks contained in the manual.</p>
42(m)(2)(D)	<p>Internal Revenue Code (IRC) Section 42(m)(2)(D) requires that the Tax-Exempt Bond issuer make a determination that the multifamily housing project is financially feasible and that no excess credits are awarded. The applicable underwriting criteria and benchmarks are those of the housing tax credit allocating agency responsible for the 42(m)(1)(D) determination.</p>
Bond	<p>A debt investment in which an investor loans money to an entity (typically corporate or governmental) that borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states, and sovereign governments to raise money and finance a variety of projects and activities. Owners of Bonds are debtholders, or creditors, of the issuer.</p>
Bond Tests Analysis	<p>The Microsoft Excel spreadsheet required for all applications eligible for Tax-Exempt Bonds that provides analysis of several of the required tests that must be met, including the good cost/ bad costs and 50% tests.</p>
Cash Collateralized	<p>Conduit Bond transactions in which the Bonds are cash collateralized by funds from other lenders, including from a first mortgage lender external to Minnesota Housing.</p>
Conduit Bonds	<p>A Bond issued by a governmental entity but repaid by another entity benefiting from the financing generated by the issuance of the Bond. For example, a business might be the borrower using the proceeds of the Bonds issued by the governmental entity to raise capital for a real estate development project. The governmental entity would have no obligation to pay the bondholders except from loan repayments made by the borrower and would bear no responsibility for repayment if the borrower defaulted.</p>

Term	Definition
Declaration of Land Use Restrictive Agreement (LURA)	The Declaration of Land Use Restrictive Covenant for low-income housing tax credits (LIHTC).
FMR	Fair Market Rent .
General Obligation Bonds	A security backed by the full faith and credit of the issuer of those Bonds, and payable from any of its generally available money, assets or revenues.
Housing Infrastructure Bonds (HIB)	HIBs are special, limited obligation Tax-Exempt Bonds, the principal and interest on which are paid solely from appropriations from the General Fund of the state, issued by Minnesota Housing. For more information on HIB, refer to Minnesota Housing’s Housing Infrastructure Bonds webpage .
Internal Revenue Code (IRC)	The Internal Revenue Code (IRC) refers to Title 26 of the United States Code. The Internal Revenue Code is enforced by the Internal Revenue Service (IRS) .
LMIR	Low and Moderate Income Rental Program . LMIR first mortgage loans are typically insured by the United States Department of Housing and Urban Development (HUD) through its Risk-Sharing program.
Minnesota Management and Budget	The State of Minnesota Department that administers private activity bond volume cap and is governed by Minnesota Statutes, Chapter 474A.
Mortgage Credit Committee	A Minnesota Housing cross-divisional management group that approves credit analysis, ownership structures and financing of projects for multifamily loans and related matters.
Municipal Bond	A debt security issued by or on behalf of a state or its political subdivision, or an agency or instrumentality of a state, its political subdivision, or a municipal corporation. Municipal Bonds, for example, may be issued by states, cities, counties, special tax districts or special agencies or authorities of state or local governments

Term	Definition
Preliminary Official Statement (POS)	<p>The official statement, in near final form, that will provide investors with all of the details regarding the Bonds being issued. Issuers who prepare an official statement must make it available to all purchasers, as well as to any investor or broker dealer who requests one. An official statement includes:</p> <ul style="list-style-type: none"> • The Terms of the Offering • Purpose of the Issue • Summary • Description of Bonds • Description of The Issuer • Financial Data for The Issuer or the Conduit Borrower • Regulatory Matters • Legal Proceedings • Type of Indenture (Open/Closed) • Authorization of Bonds • Security Pledged, if any • Construction Plans • Tax Status
Private Activity Bonds	<p>A Municipal Bond issued to fund projects used by a non-governmental entity in its trade or business and secured by property used in a trade or business. Certain types of these obligations may be Tax-Exempt Bonds and therefore bear interest excludable from federal gross income.</p>
QAP	<p>Qualified Allocation Plan. Section 42 of the Internal Revenue Code requires that state allocating agencies develop a QAP for the distribution of housing tax credits within their jurisdiction. The current and proposed QAPs for each calendar year are available on Minnesota Housings Qualified Allocation Plan (QAP) webpage.</p>
Section 142(d)	<p>Section of the Internal Revenue Code that describes what constitutes a qualified residential rental project.</p>
Section 42	<p>Section of the Internal Revenue Code applicable to the low-income housing tax credit (LIHTC).</p>
Tax-Exempt Bonds	<p>A Municipal Bond that bears interest excludable from federal gross income, and sometimes also not subject to state or local income taxation.</p>
Tax-Exempt Volume Limited Bonds	<p>A Municipal Bond that must receive an allocation of a portion of the state's volume cap for the issuance of Private Activity Bonds under Section 146 of the Internal Revenue Code in order to qualify as a Tax-Exempt Bond.</p>

Term	Definition
TEFRA	Tax Equity and Fiscal Responsibility Act of 1982. Certain types of Private Activity Bonds, to qualify as Tax-Exempt Bonds, must be approved (TEFRA approval) either by an elected official or a body of elected officials of the applicable governmental entity after a public hearing (TEFRA hearing) following reasonable public notice (TEFRA notice) or by voter referendum of the governmental entity.
United States Department of Housing and Urban Development (HUD)	One of the executive departments of the United States federal government that administers federal housing and urban development laws.
Workbook	The Microsoft Excel spreadsheet used to apply for Minnesota Housing multifamily funding.