



# **Rental Rehabilitation Loan Program Procedural Manual**

(No funding available - for  
compliance purposes)

*October 2016*

*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, or sexual or affectional orientation in the provision of services.*

*An equal opportunity employer.*

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

# Table of Contents

<b>Introduction.....</b>	<b>1</b>
<i>Background.....</i>	<i>1</i>
<i>Our Mission.....</i>	<i>1</i>
<i>Our Strategic Priorities .....</i>	<i>1</i>
<i>Procedural Manual .....</i>	<i>1</i>
<b>Chapter 1 – Lender Participation Procedures .....</b>	<b>2</b>
1.01 <i>Application.....</i>	<i>2</i>
1.02 <i>Term of Purchase Agreement .....</i>	<i>2</i>
1.03 <i>Contract Documents .....</i>	<i>3</i>
1.04 <i>Loan Processor.....</i>	<i>3</i>
1.05 <i>Reliance on Lender’s Warranties .....</i>	<i>3</i>
1.06 <i>Lender’s Statement of Warranties.....</i>	<i>3</i>
1.07 <i>Fair Housing/Equal Opportunity – Affirmative Marketing .....</i>	<i>5</i>
1.08 <i>Evidence of Misconduct Referred to Attorney General .....</i>	<i>5</i>
<b>Chapter 2 - Borrower Eligibility .....</b>	<b>6</b>
2.01 <i>Eligible Borrower.....</i>	<i>6</i>
2.02 <i>Ownership Interest.....</i>	<i>6</i>
2.03 <i>Spousal Obligations .....</i>	<i>6</i>
2.04 <i>Requirements for Borrowers who are not Natural Persons.....</i>	<i>6</i>
2.05 <i>Loans to Related Parties .....</i>	<i>7</i>
<b>Chapter 3 - Property Eligibility .....</b>	<b>9</b>
3.01 <i>Eligible Properties .....</i>	<i>9</i>
3.02 <i>Lead Based Paint Requirements .....</i>	<i>10</i>
3.03 <i>Initial Inspections.....</i>	<i>11</i>
3.04 <i>Preparation of Workscope .....</i>	<i>11</i>
3.05 <i>Contractor Requirements.....</i>	<i>13</i>
3.06 <i>Commencement of Improvements .....</i>	<i>14</i>
3.07 <i>Completion of Improvements .....</i>	<i>14</i>
<b>Chapter 4 – Underwriting Information/Analysis .....</b>	<b>15</b>
4.01 <i>Debt and Income Analysis.....</i>	<i>15</i>
4.02 <i>Credit Analysis.....</i>	<i>16</i>
4.03 <i>Net Worth Analysis .....</i>	<i>16</i>
4.04 <i>Property Analysis .....</i>	<i>16</i>
<b>Chapter 5 – Loan Eligibility Requirements.....</b>	<b>17</b>
5.01 <i>Direct Loans .....</i>	<i>17</i>
5.02 <i>Refinancing .....</i>	<i>17</i>
5.03 <i>Loan Principal Guidelines.....</i>	<i>17</i>

5.04	<i>Subsequent Minnesota Housing Loans on the Same Property</i>	17
5.05	<i>Interest Rate</i>	18
5.06	<i>Maturity</i>	18
5.07	<i>Payments</i>	18
5.08	<i>Prepayment</i>	18
5.09	<i>Security</i>	18
5.10	<i>Guarantors</i>	19
5.11	<i>Other Sources of Funds</i>	19
5.12	<i>Requesting Individual Commitments</i>	19
5.13	<i>Prior Approval</i>	19
5.14	<i>Documentary Requirements</i>	20
5.15	<i>Promissory Note</i>	21
5.16	<i>Note Purchase Procedures</i>	22
5.17	<i>Purchase Price</i>	22
5.18	<i>Possession of Loan File</i>	22
5.19	<i>Inspection</i>	22
5.20	<i>Servicing</i>	22
5.21	<i>Subordination Policy</i>	23
5.22	<i>Remedies</i>	23

**Chapter 6 – Fair Housing Policy ..... 25**

**Definitions ..... 26**

<i>Lead Based Paint Definitions</i>	26
<i>HQS Rehabilitation Standards</i>	27

**Program Contact..... 32**

## **Introduction**

### **Background**

Minnesota Housing (the Agency) was established by the 1971 session of the Minnesota Legislature to finance the construction and rehabilitation of housing for families of low and moderate income. In addition to providing financing for multifamily rental units, single family mortgage loans and home improvement loans and grants, the Agency participates in and administers other programs which assist in increasing or improving affordable housing for Minnesota residents.

### **Our Mission**

Minnesota Housing finances and advances affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

### **Our Strategic Priorities**

- Financing new affordable housing opportunities;
- Preserving existing affordable housing;
- Ending long-term homelessness; and
- Increasing emerging market homeownership

### **Procedural Manual**

The Procedural Manual sets forth for Lenders the terms and conditions under which Minnesota Housing will purchase loans under the Rental Rehabilitation Loan Program. Nothing in the Procedural Manual shall be construed in such a manner as to conflict with, alter, or amend any federal or state regulation applicable to the operations of Lenders. Minnesota Housing reserves the right to alter or waive any of the requirements herein, impose additional requirements, and rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

## **Chapter 1 – Lender Participation Procedures**

### **1.01 Application**

A Rental Rehabilitation Loan Program Lender must be an organized business enterprise or governmental entity which is authorized by law to make and sell property improvement loans in the State of Minnesota. The Lender contracts with Minnesota Housing hereunder as an independent contractor, and is not an agent of Minnesota Housing for purposes of this Procedural Manual or of the contract documents. Lenders shall originate loans for sale to Minnesota Housing in accordance with normal lending practices and geographic areas of activity.

Interested and qualified lenders may submit to Minnesota Housing a completed Minnesota Housing Rental Rehabilitation Loan Program Participation Application and Note Purchase Agreement. Such an application in itself does not constitute or imply a commitment or transfer of any funds. Minnesota Housing shall have the right to reject the application for the following reasons, at the sole discretion of Minnesota Housing:

- A. For failure of lender to comply previously with the procedural manuals of other Minnesota Housing programs,
- B. Lender is unable to demonstrate to Minnesota Housing that it has adequate capital or personnel with which to effectively participate in the Rental Rehabilitation Loan Program, or
- C. In the event that Minnesota Housing is unable to obtain the appropriate funds and/or debt security to operate the Rental Rehabilitation Loan Program.

### **1.02 Term of Purchase Agreement**

After receipt of the lender's completed Participation Application and Note Purchase Agreement, Minnesota Housing shall notify each lender, and if accepted, shall execute the Lender's purchase agreement, delivering a copy to the Lender. Minnesota Housing purchase agreements are not assignable without the prior written approval of Minnesota Housing. Purchase agreements shall extend for the period of the participation term, which shall commence on the date the purchase agreement is executed and terminate upon written notice from the Lender or Minnesota Housing. Every loan submitted for purchase to Minnesota Housing must be dated within the period of the participation term. Minnesota Housing may terminate the participation of any Lender under this Procedural Manual at any time and may preclude such Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- A. This Procedural Manual;
- B. The Participation Application and Note Purchase Agreement;
- C. The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- D. Any applicable state or federal law, rules, or regulations.

Upon termination of a Lender's participation, Minnesota Housing will continue to purchase eligible loans for which Minnesota Housing has issued a commitment prior to the date of the notice of termination, until the commitment expiration date.

The lender may request reinstatement into Minnesota Housing programs. The decision of whether to reinstate a lender shall be at the sole discretion of Minnesota Housing.

### **1.03 Contract Documents**

The following documents shall constitute and evidence a contractual commitment between Minnesota Housing and the Lender:

- A. An executed Rental Rehabilitation Loan Program Participation Application and Note Purchase Agreement.
- B. This Procedural Manual, including subsequent supplements or amendments thereto, in any form, which Minnesota Housing shall publish.

### **1.04 Loan Processor**

The Lender must designate specific individuals of the Lender's institution as loan processors for loans submitted to Minnesota Housing for purchase. The loan processor may be any person who is involved in preparing loans for sale to Minnesota Housing. The Lender shall notify Minnesota Housing in writing when a change of loan processors takes place, and allow for Minnesota Housing staff to train the designated loan processor prior to origination of any Minnesota Housing Loans.

### **1.05 Reliance on Lender's Warranties**

Lender should carefully note the warranties required of it, contained in the purchase agreement and set forth in this procedural manual. Minnesota Housing expressly relies on each Lender either satisfying fully each of these warranty requirements at all times as they pertain to the Lender and the notes delivered, or obtaining a written waiver thereof from Minnesota Housing.

### **1.06 Lender's Statement of Warranties**

Lender, as evidenced by the execution of the purchase agreement with Minnesota Housing, hereby makes the following warranties to Minnesota Housing both on the date that each loan is assigned by Lender to Minnesota Housing, and on the date when the loan is purchased:

- A. Lender is authorized by law to do business and/or conduct its affairs in the State of Minnesota;
- B. Lender is sole owner and holder of the loan and has full right to sell and assign the same to Minnesota Housing;
- C. No interest or participation in the loan has heretofore been assigned;
- D. Lender has not collected from the borrower or any other person, directly or indirectly, any points, origination fees, charges or other compensation. Lender may collect fees from the borrower for actual expenses incurred in connection with the loan as approved in this Procedural Manual.
- E. Lender has examined the credit application, and has made such investigation as it deems necessary to verify the facts stated therein, and has determined such facts to be true and correct;

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

- F. If the loan is secured by a mortgage, there are no defaults in complying with the terms of such mortgage and Lender has not advanced funds, nor solicited any advance of funds by another, directly or indirectly, for the payment of any amount required by the loan;
- G. Lender has no knowledge of any circumstances or conditions with respect to the Loan, or the property to be improved, or the borrower or his/her credit standing that can be reasonably expected to cause prudent private investors in the secondary market to regard the loan as an unacceptable investment, cause the loan to become delinquent, or adversely affect the value or marketability of the loan;
- H. The note meets applicable state or federal laws, regulations, or other requirements pertaining to usury, and such note is not usurious;
- I. Lender has disbursed loan proceeds to the borrower by cash, check, money order or crediting of a borrower's account, in such a way that the borrower will have complete access to and control of the funds, subject to the provisions of the Escrow Agreement, as defined in Section 3.06;
- J. The relevant requirements of any state or federal laws, rules, or regulations respecting, known as, or governing consumer credit, plain language consumer contracts and truth-in-lending have been complied with and, as to any loan transaction subject to the right of rescission which has not been effectively waived, the time for the exercise of such right has expired prior to delivery and the transaction has not been rescinded, and such transaction has been ratified, in writing by each person having such right, or by payment on the obligation in a manner sufficient to constitute ratification by each such person;
- K. Lender has complied with all other terms, conditions, and requirements of the purchase agreement, unless any such shall have been waived by Minnesota Housing, in writing;
- L. Lender has no knowledge that any improvement covered by the loan is in violation of any applicable zoning or building law or regulation;
- M. Lender will maintain adequate capital and personnel for participation in the Rental Rehabilitation Loan Program;
- N. Upon request of Minnesota Housing, the Lender shall permit, during Lender's business hours, representatives of Minnesota Housing to examine or audit any and all of its records or accounts pertaining to any loan sold to Minnesota Housing by virtue of the purchase agreement;
- O. If, as to any loan purchased by Minnesota Housing, any of the warranties contained in this section herein are in fact untrue in any respect, then Minnesota Housing may, at its option, tender the loan to Lender, and Lender shall within ten days after the date of tender, pay to Minnesota Housing the full amount of the unpaid principal balance of the loan at the time of repurchase, with adjustment for interest and any comparable items at the time of repurchase, and for the aggregate amount of any advances and interest thereon and any attorney's fees, legal expense, court costs, processing fees, or other expenses that may have been incurred by Minnesota Housing in connection with such loan and the repurchase thereof.

**1.07 Fair Housing/Equal Opportunity – Affirmative Marketing**

It is the policy of Minnesota Housing to work affirmatively to ensure that all persons, regardless of age, race, color, ethnicity, national origin, sex, religion, familial status, age, disability or reliance on public assistance, will be treated fairly and equally for purposes of participation in the Rental Rehabilitation Loan Program.

The Lender will be primarily responsible for the promotion of the Rental Rehabilitation Loan Program at the local level. The Lender must exercise care in avoiding marketing methods which may be deemed to systematically exclude potentially eligible applicants. Access to program information and materials will not be denied to any person for any reason including race, color, ethnicity, national origin, gender, religion, familial status, age, disability, or reliance on public assistance.

Affirmative marketing should include efforts to reach those persons who traditionally have not participated in these or similar Minnesota Housing programs. In order to develop or maintain an effective affirmative marketing program, the Lender should review its marketing methods from time to time to determine how the methods used can be improved to increase the participation of persons who otherwise might not apply for assistance under the Rental Rehabilitation Loan Program, such as single headed households with children, households of color, or persons with disabilities.

**1.08 Evidence of Misconduct Referred to Attorney General**

If, after a loan is made, a Lender who acted in good faith discovers any material misstatements or misuse of the proceeds of the loan by the borrower or others, the Lender shall promptly report such discovery to Minnesota Housing.

Lenders are informed that Minnesota Housing will refer any evidence of fraud, misrepresentation or other misconduct in connection with the operation of this program to the Minnesota Attorney General’s Office for appropriate legal action.

## Chapter 2 - Borrower Eligibility

### 2.01 Eligible Borrower

An eligible borrower is one or more applicants who are eligible to apply for and receive a loan as the makers of the note in evidence of the loan, in conformance with the requirements of the Minnesota Housing Rental Rehabilitation Loan Program Procedural Manual, and all applicable statutes and rules. Eligible borrowers include individuals, corporations, general and limited partnerships, and limited liability companies. Governmental entities, co-ops, townhouse or condominium associations, and other similar organizations are not eligible borrowers.

### 2.02 Ownership Interest

A borrower, individually or in the aggregate, must have at least a one-third interest in the property, however all owners of the property to be improved must sign the mortgage. Eligible forms of ownership interest include:

- A. A fee title,
- B. A fee title subject to a mortgage or other lien securing a debt,
- C. A contract for deed (For a borrower who is a contract for deed vendee, both the fee owner and all contract purchaser(s) and their spouses are required to sign the mortgage, and a copy of the contract must be provided), or
- D. A life estate (For a borrower who is a remaindermen in a life estate, all the remaindermen and life tenant(s), and their spouses, are required to sign the mortgage).

### 2.03 Spousal Obligations

For properties which are owner-occupied, the spouse must enter into the loan obligation.

### 2.04 Requirements for Borrowers who are not Natural Persons

- A. Corporations must provide:
  - 1. Certified Articles of Incorporation and amendments, if any;
  - 2. Certified Bylaws and amendments, if any;
  - 3. Borrowing Resolution containing the following:
    - a. Authority to own and operate rental property.
    - b. Authority to borrow Rental Rehabilitation Loan funds and execute Minnesota Housing loan documents.
    - c. Name and title of officer(s) authorized to execute loan documents.
  - 4. Certificate of Good Standing filed with the Minnesota Secretary of State's Office and dated within 30 days prior to the execution of loan documents.
- B. General Partnerships must provide:
  - 1. Partnership Agreement and amendments, if any.

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

- a. Term of the partnership must be for at least the term of Minnesota Housing's Rental Rehabilitation Loan.
  - b. There must be at least two general partners.
  - c. All general partners are required to sign the Minnesota Housing loan documents.
2. Borrowing Resolution of corporate general partner(s). Refer to A.3. (a) through (c) above for requirements.
  3. Certificate of Good Standing for corporate general partner(s) filed with the Minnesota Secretary of State's Office and dated within 30 days prior to the execution of loan documents.
- C. Limited Partnerships must provide:
1. Certificate of Limited Partnership filed with the Minnesota Secretary of State's Office.
  2. Limited Partnership Agreement and amendments, if any.
    - a. All general partners are required to sign Minnesota Housing's loan documents.
    - b. The term of the partnership must be for at least the term of Minnesota Housing's Rental Rehabilitation Loan.
  3. Borrowing Resolution of corporate general partner(s). Refer to A.3. (a) through (c) above for requirements.
  4. Certificate of Good Standing for the Limited Partnership and Corporate General Partners, filed with the Minnesota Secretary of State's Office and dated within 30 days prior to the execution of loan documents.
- D. Limited Liability Companies (LLCs) must provide:
1. Certified Articles of Organization and amendments, if any.
  2. Certified Operating Agreement/Bylaws and amendments, if any.
  3. Certified Member Control Agreement (if applicable) and amendments, if any.
  4. Borrowing Resolution of corporate member(s). Refer to A.3. (a) through (c) above for requirements.
  5. Certificate of Good Standing for the Limited Liability Company and Corporate members, filed with the Minnesota Secretary of State's Office and dated within 30 days prior to the execution of loan documents.

### **2.05 Loans to Related Parties**

A Lender may make loans to its directors, officers, employees or their families, provided the Lender has complied with parts A through C below, as well as any applicable regulations dealing with insider loans. A Lender may also originate loans to Minnesota Housing employees or their families provided the Lender has complied with parts A through C below, and provided all credit applications are submitted to Minnesota Housing for prior approval by Minnesota Housing's board of directors, to be reviewed in accordance with all data privacy requirements. The Lender must comply with the following provisions for all related party applicants:

- A. The related party applicant must meet all applicable eligibility requirements for a loan.

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

- B. All applications for loans must be reviewed and accepted or rejected by the Lender according to guidelines and other criteria, which are consistently applied by the Lender to all applications.
- C. Lender must in no way deviate from the consistent application of such guidelines or other criteria in considering or approving the application of the related party applicant

## Chapter 3 - Property Eligibility

### 3.01 Eligible Properties

In order to be an eligible property, a property, and the parcel of real estate upon which it is situated, must be located in the State of Minnesota, used primarily for residential purposes, and meet the following requirements:

- A. The property must be determined by the Lender to require energy conservation improvements;
- B. The property must consist of one or more rental dwelling units for which rent, in cash or in kind, is received by the borrower;
- C. The property must consist of dwelling units which include self-contained cooking, sleeping and bathroom facilities;
- D. The property must constitute a permitted use, or be subject to a conditional or special use permit under the applicable zoning ordinances, including municipal, urban renewal, and development district plans, which use or permit must not be impaired by the proposed improvements;
- E. A mixed use (commercial/residential) structure is an eligible property where documentation is provided demonstrating that over 50% of the total building floor area is used for residential purposes, and the proposed improvements primarily benefit the residential portion of the property;
- F. A manufactured or factory-made dwelling structure is an eligible property if, in addition to all other eligibility standards set forth in this manual, the following requirements are met:
  1. The structure has been placed on property owned by the borrower or being purchased under a real estate contract,
  2. The wheels of the structure have been removed and the structure has been placed on a permanent foundation,
  3. The security for the loan to purchase the structure is in the form of a mortgage covering the property and the structure is no longer capable of being repossessed as personal property,
  4. The structure is carried on the tax rolls of the locality as real property;
- G. The property must be completed - A property is considered a completed property if it has previously been occupied as a residence for at least 90 days, and a certificate of occupancy has been issued for the property at least 90 days prior to the date of the Rental Rehabilitation Loan Program Application;
- H. The residential portion of the structure must be occupied primarily by persons and families of low and moderate income. A property occupied as a residential structure in the immediate past that is presently vacant, or that contains some vacant and some occupied units, is eligible under the program provided that the owner certifies that when occupied, the property will be occupied primarily by persons and families of low and moderate income.

1. Primarily shall mean at least one of the units in the case of a one- or two-unit rental structure, two of the units in the case of a three-unit rental structure, three of the units in the case of a four-unit rental structure, four of the units in the case of a five- or six-unit rental structure, and at least 75% of the units in the case of rental structures containing more than six units.
2. Persons and families of low and moderate income shall mean those persons and families whose gross annual household income does not exceed 80% of the statewide median income as determined for a household size of four, not adjusted for family size, by the U.S. Department of Housing and Urban Development. Gross annual income means the annual income, before taxes and withholding, projected as of the date of the Rental Rehabilitation Loan Program Application. The current HUD income limits can be found at: [http://www.mnhousing.gov/resources/apply/multifamily/MHFA\\_004714.aspx](http://www.mnhousing.gov/resources/apply/multifamily/MHFA_004714.aspx)

### **3.02 Lead Based Paint Requirements**

Minnesota Housing state-funded rehabilitation shall follow generally the federal requirements for identifying and correcting lead-based paint hazards, as described in Title 24 of the Code of Federal Regulations, Part 35 (24CFR Part 35). The kinds of properties and rehabilitation exempted from HUD’s “Lead Safe Housing Rule” (24 CFR Part 35) shall apply to Minnesota Housing rehabilitation loan funds. See the Lead Based Paint Definitions Appendix for further information.

The lead hazard evaluation and lead hazard reduction methods used shall comply with all applicable regulations. When two or more standards govern the same condition or when a property will be assisted by more than one Minnesota Housing program, conformance with the most restrictive standard is required.

If the property receives no funds that are subject to 24CFR Part 35 in conjunction with Minnesota Housing financing, the lead hazard evaluation and reduction requirements of 24CFR Part 35, Subpart J-Rehabilitation, shall apply, except as modified below:

- A. All references to “grantee, participating jurisdiction or CILP recipient” shall be replaced with “Lender”.
- B. Delete Section 35.900 in its entirety and replace with “The purpose of this Subpart J is to establish procedures to eliminate as far as practicable lead-based paint hazards in residential property that receives a rehabilitation loan for purpose of rehabilitation.”
- C. In Section 35.910(a) the word “federally” shall be changed to Minnesota Housing.
- D. Sections 35.915, 35.920, 35.925, 35.930(d), 35.935 and 35.940 shall not apply.
- E. Throughout Subpart J, the term “Federal rehabilitation assistance” shall mean “rehabilitation loan”.
- F. The first sentence in Section 35.930(c) shall be modified to read: “Residential property receiving a loan greater than \$5,000 per unit.

After receipt of the Loan Funding Commitment, the Lender shall:

- A. Have an inspection of the property completed (Housing Quality Standards and lead based paint visual assessment, completed by a person trained using the Visual Assessment Training Module available at the HUD website).

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

- B. Determine if the property is exempt from Minnesota Housing lead based paint requirements. If determined to be exempt, no further lead based paint requirements are necessary.
- C. If property is not determined to be exempt, the process is generally as follows:
  - 1. For Minnesota Housing rehabilitation assistance up to and including \$5,000 per unit:
    - a. Have paint testing conducted on surfaces with paint deterioration, as identified in the visual assessment, and on surfaces that will be disturbed during rehab, or presume lead based paint.
    - b. If lead based paint is presumed to exist or paint testing indicates lead based paint, unless maintenance or hazard reduction is less than “De Minimis Levels,” lead safe work practices must be used and rehabilitation must be completed by contractors whose workers are trained in lead safe work practices, are licensed lead workers, or who will be supervised by a certified lead supervisor. Upon completion of rehabilitation, lead based paint clearance must be conducted.
  - 2. For Minnesota Housing rehabilitation assistance of more than \$5,000 per unit:
    - a. If the visual assessment reveals deteriorated paint and/or rehab will disturb painted surfaces, have a lead based paint risk assessment conducted in accordance with Minnesota Department of Health rules, or presume lead based paint.
    - b. If lead based paint is presumed to exist, or the risk assessment indicates the existence of lead based paint hazards, unless maintenance or hazard reduction is less than “De Minimis Levels,” interim controls must be performed by contractors whose workers are trained in lead safe work practices, are licensed lead workers, or who will be supervised by a certified lead supervisor. Upon completion of rehabilitation, lead based paint clearance must be conducted.

### **3.03 Initial Inspections**

- A. Housing Quality Standards (HQS) property inspection - Housing Quality Standards (HQS) are the minimum required property operating conditions as promulgated by the U.S. Department of Housing and Urban Development. See the HQS Rehabilitation Standards Appendix for further information. Prior to loan closing, an initial HQS property inspection must be completed, and all deficiencies listed in the Housing Quality Standards Property Inspection Report.
- B. Energy Standards Audit - Prior to loan closing, an initial Energy Standards Audit must be completed by an energy auditor, listing the simple payback in years, of completing each energy conservation item.

### **3.04 Preparation of Workscope**

Prior to making a loan, Lender shall obtain a list of improvements, which is part of the credit application.

- A. Improvement Requirements - All properties that are improved under the Rental Rehabilitation Loan Program must be determined by the Lender to require energy conservation improvements and must include such improvements in the workscope. The workscope must also include the following:

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

1. Work items necessary to correct deficiencies identified in the initial HQS property inspection,
2. Energy conservation measures with an estimated simple payback of seven years or less, as identified in the initial Energy Standards Audit,
3. Work items necessary to ensure the property will be in compliance with 24CFR Part 35, as modified above.

All improvements completed with Rental Rehabilitation Loan Program funds must be permanent general improvements, defined as additions, alterations, renovations, or repairs upon or in connection with existing structures, which materially preserve or improve the basic livability, safety, or utility of the property.

All work or construction completed with Rental Rehabilitation Loan Program funds must be in compliance with all applicable building and housing codes and standards, and must be in compliance with an approved Minnesota Housing contractor warranty covering workmanship and materials.

- B. Improvement Options – Permanent general improvements including, but not limited to, the following are eligible improvement options:
1. Residential properties may be improved to comply with state, county, or municipal health, housing, building, fire prevention, and housing maintenance codes, or any other public standards applicable to housing.
  2. Accessibility improvements are eligible improvements, and are defined as interior or exterior improvements or modifications to a residential property which are necessary to enable a disabled person to function in that residential setting. Accessibility improvements may include such items as: construction of ramps; installation of handrails and grab bars; replacement of bathtubs with wheel-in showers; lowering of items such as sinks, electrical switches, and cupboards; widening of doorways; and provision of bathroom or bedroom space on the first floor level of the dwelling unit. All such items must be fixtures.
  3. Site improvements are eligible, given that they are permanent general improvements in connection with an existing structure, and which materially preserve or improve the basic livability, safety, or utility of the property.
  4. Built-in kitchen appliances are eligible. The appliances must be installed and affixed permanently so that they will become an integral part of the property.
  5. Carpeting is eligible.
- C. Diagnostic services and construction management expenses that are related to improvements are eligible for financing, provided the total amount of expenses does not exceed the lesser of 5% of the loan amount, or \$2,600. Such services and expenses include, but are not limited to, the following:
1. Energy Standards Audit
  2. Lead Based Paint Costs
  3. Architectural services
  4. Site inspections

5. Escrow management fee
  6. Owner and Encumbrance report
  7. Title work
  8. Credit report fees
  9. Appraisal fees
  10. Building permit fees
  11. Filing fees
  12. Registration taxes
- D. Ineligible Improvements - Certain improvements may not be financed with Minnesota Housing Rental Rehabilitation Loan Program funds, including the following:
1. Luxury Improvements, including materials or fixtures of a type or quality exceeding that customarily used in the locality for properties of the same general type as the property to be improved,
  2. Outbuildings including sheds, utility buildings, barns, silos, new garages, etc.,
  3. Fireplaces and wood burning stoves, though necessary repairs to an existing fireplace or wood burning stove are eligible,
  4. Heating system located outside the structure,
  5. Recreational or entertainment facilities including swimming pools, tennis courts, saunas, decks, and patios,
  6. Assessments for public improvements,
  7. Construction of additional dwelling units,
  8. Improvements to a recreational home,
  9. Conversion of a nonresidential structure to a residential structure, and
  10. Appliances, pieces of furniture, or other items, which, under Minnesota law, are not fixtures.

### **3.05 Contractor Requirements**

When there is a contract covering all or any portion of the proposed improvements, the contractor who will perform the improvement work must sign a Rental Rehabilitation Loan Program Contractor Warranty. Lenders must permit borrowers to select the contractor(s) of their choice, and must not require that contractors be chosen from a list of contractors approved by the Lender.

When the borrower(s) take responsibility for performing all or part of the improvement work themselves, the Lender shall ensure that work complies with all applicable building or housing code regulations and ordinances and all necessary permits and licenses shall be obtained. Furthermore, the Lender shall ensure such borrowers shall not pay labor costs to themselves or members of their immediate family.

### **3.06 Commencement of Improvements**

- A. Timing - Improvements shall not begin before loan closing without the prior written consent of Minnesota Housing, which may be granted in the case of an immediate threat to the health or safety of the existing residents of the property. Under no circumstances shall improvements begin before the date of the Rental Rehabilitation Loan Program Application.
- B. Escrow Agreement - Prior to closing the loan, the borrower must enter into a Rental Rehabilitation Loan Program Escrow Agreement, which constitutes and evidences a contractual agreement between the borrower, and a person or entity deemed acceptable by the Lender to act as the escrow agent. The Lender may act as the escrow agent, or the Lender may enter into a written agreement with another party to act as the escrow agent.  
  
The escrow agent shall hold the proceeds of the loan in an escrow account, which may be interest bearing or non-interest bearing at the escrow agent's discretion, and shall make disbursements as progress payments to the contractor(s) upon execution of each Rental Rehabilitation Loan Program Completion Certificate.
- C. Progress Inspections - The escrow agent shall inspect the site during construction to ensure that the improvements are being completed with quality workmanship and materials, in accordance with the plans and specifications agreed to between the borrower and contractor(s), and that the property is being improved in accordance with Housing Quality Standards, and energy conservation standards.

### **3.07 Completion of Improvements**

Improvements must be completed within nine months from the date of the note. Prior to disbursement of final payment, the escrow agent must obtain the Rental Rehabilitation Loan Program Completion Certificate for final payment, which evidences the following:

- A. Construction has been completed,
- B. Energy conservation improvements have been completed,
- C. The property complies with Housing Quality Standards, and
- D. Work and materials are of satisfactory quality.

Prior to disbursement of final payment, the escrow agent must also conduct an inspection of the site to verify the work certified in the Completion Certificate. The Lender or its assigns must provide Minnesota Housing with a copy of the signed Rental Rehabilitation Loan Program Completion Certificate for final payment within fourteen days of the execution of said completion certificate

## Chapter 4 – Underwriting Information/Analysis

Minnesota Housing will not purchase any loan without sufficient evidence of underwriting analysis. A Lender is to use normal and prudent underwriting standards for determining that, in its judgment, the loan represents a reasonable credit risk. This determination should be based primarily on whether the revenues generated by the property to be improved, as well as the current market value of the property, are sufficient to support the additional debt, and secondarily, based on the borrower's credit history and repayment ability. For borrowers that are not individuals, credit history and repayment ability of the ownership entity shall be evaluated, and personal guarantees from the individual principals of the ownership entity may be required. The entity must provide such financial information as is necessary to demonstrate its solvency, such as financial statements, tax statements, and account statements.

For properties that the owner does not live in, and where the spouse does not have an ownership interest, every effort should be made to have the spouse enter into the obligation as a co-borrower or guarantor. Care must be taken when analyzing the creditworthiness and repayment ability of the borrower whose spouse will not enter into the loan as a guarantor. If the spouses have a joint financial statement, a shared net worth is implied. Hence, without the spouse's guarantee, a borrower's net worth may be considered as one-half of the spouses' shared net worth.

At the Lender's discretion, loans with principal amounts not exceeding \$5,000 may be underwritten on a personal loan basis, based solely on the borrower's credit history and repayment ability. In such cases, the borrower's personal monthly debt to gross income ratio cannot exceed 40%.

The Lender shall include the following as part of the underwriting analysis.

### 4.01 Debt and Income Analysis

The Lender shall evaluate the borrower's debt payments in comparison to income receipts as an indicator of the borrower's repayment ability.

- A. Debt information: The credit application must list all fixed obligations for which the borrower has assumed personal liability, including but not limited to all mortgage or contract-for-deed payments for purchasing real property, installment loans, personal notes, and debts to financial institutions.

Obligations related to the borrower's business or farm operation for which he or she is not personally liable should not be considered personal debts, but should be listed on the credit application and identified as business debts. The Lender should review the general financial condition of the borrower's business or farm operation to determine whether it is likely to have an adverse effect on the borrower's ability to repay the loan.

- B. Income documentation –The Lender shall also verify in writing all sources and amounts of income which comprise a significant portion of the borrower's projected gross annual income, before taxes and withholding, as of the date of the Rental Rehabilitation Loan Program Application. Net income from rental or business activities shall be counted after adding back depreciation. Acceptable forms of verification include:
  - 1. At least one month of the most recent paycheck stubs, plus the previous two years' W-2 forms may be used to verify salaried employment,

2. The previous two years' tax returns must be used to verify income of self-employed individuals, persons having variable annual incomes, or when income from interest/dividends or income-generating property comprises a significant portion of gross income,
3. A documented telephone call or written verification form submitted to employer(s), identifying the name of the employer, the actual earnings, and the manner of payment, and
4. Such other verification as is deemed appropriate.

#### **4.02 Credit Analysis**

The loan file must contain evidence of the Lender's investigation of the borrower's financial status and creditworthiness. The credit investigation shall include information on all persons required to join in the Note. The loan file must include a commercial credit report, and any of the following if necessary to document the borrower's creditworthiness:

- A. A listing of credit bureau ratings obtained by telephone,
- B. Written letters of credit experience from creditors,
- C. Documented telephone conversations with creditors, and
- D. A letter describing the Lender's own credit experience with the borrower, including details of the individual accounts maintained with the Lender.

#### **4.03 Net Worth Analysis**

A personal financial statement on a form acceptable to Minnesota Housing, verifying the borrower's assets, liabilities, and net worth shall be required, and evaluated as an indicator of the borrower's repayment ability.

#### **4.04 Property Analysis**

The loan file must document evaluation of the property's financial characteristics, including:

- A. Current property value – In no case shall a secured loan be made in an amount which, when combined with all other existing indebtedness secured by the property which requires regular debt service payments, would exceed its market value after anticipated improvements.
- B. Debt – All debts on the property must be disclosed and documented, including debt service requirements.
- C. Cash flow – The property's cash flow and debt service coverage should be documented and analyzed. If one of the dwelling units in a property is occupied by the borrower, or any of the units are vacant at the time of loan application, the rent that the unit could reasonably be expected to command in the open market may be considered in the property's cash flow analysis. Only in extraordinary circumstances, and only with the prior written approval of Minnesota Housing, will loans with a negative cash flow be accepted.

## Chapter 5 – Loan Eligibility Requirements

In order to be eligible for purchase by Minnesota Housing, a loan must be originated in accordance with the following requirements:

### 5.01 Direct Loans

Only direct loans are eligible for purchase by Minnesota Housing. A direct loan is a loan that is applied for by, and disbursed to the borrower, and where the Rental Rehabilitation Loan Program Application, signed by the borrower, is filled out by:

- A. The Borrower,
- B. A maker of the note other than the borrower, or
- C. A person acting at the direction of the borrower who has no financial interest, directly or indirectly, in the contract for the repair, alteration, or improvement of the borrower's property.

Dealer loans are ineligible for purchase by Minnesota Housing. A dealer loan is a loan where an intermediary such as a contractor, salesman or materials supplier, having a financial interest in the contract for the repair, alteration, or improvement of the borrower's property, intervenes or participates in the application for, or disbursement of, the loan. Such intervention in the application and disbursement processes includes presenting the loan application to the lending institution, receiving the check or money order (although made payable to the borrower), or accompanying the borrower to the institution for the purpose of receiving payment. The Lender shall ensure that Rental Rehabilitation Loans are not made as dealer loans.

### 5.02 Refinancing

Minnesota Housing will not purchase loans placed by Lender for the purpose, in whole or in part, of refinancing any existing indebtedness. For the purposes of this section, repayment of construction advances is considered refinancing.

### 5.03 Loan Principal Guidelines

- A. The minimum loan amount is \$1,000.
- B. For structures containing one or two dwelling units, the maximum principal amount of a loan is \$25,000. For structures containing more than two dwelling units, up to \$10,000 per dwelling unit may be borrowed, with a maximum of \$100,000 per structure.
- C. The Lender shall not restrict the amount of any loan for reasons other than:
  1. To comply with the requirements of this Procedural Manual, including loan limits, debt limits, and security requirements.
  2. To comply with Lender-established debt limits.
  3. Normal and prudent underwriting.

### 5.04 Subsequent Minnesota Housing Loans on the Same Property

A Borrower may apply for an additional Rental Rehabilitation Loan, provided that:

- A. The borrower has a good payment history on any previous Minnesota Housing loans,
- B. The sum of the new loan amount and the outstanding balance on any previous Rental Rehabilitation Loans cannot exceed the eligible loan principal limits of the Program, and
- C. The proposed improvements to be financed with the subsequent loan must include all improvements necessary to bring the property into HQS compliance.

### **5.05 Interest Rate**

The simple annual interest rate on the loan shall be 6%.

### **5.06 Maturity**

The loan shall not have a final maturity of less than six months from the date of the note. The maximum permissible maturity on a loan is fifteen years and thirty-two days from the date of the note. Final maturity of the loan shall be commensurate with the borrower's ability to pay, and shall not extend for an unreasonable length of time.

For properties being purchased on a contract-for-deed or on a mortgage from a private individual, the term of the loan should not extend beyond the date of any balloon payment without prior approval from Minnesota Housing.

### **5.07 Payments**

The minimum monthly payment on a loan shall be \$30. If a desired maturity results in a monthly payment of less than \$30, then the maturity should be decreased to yield a monthly payment of not less than \$30.

The note may provide for a first or final payment in an amount other than the regular installment. In such instances, the installment shall not be less than one-half, or more than one and one-half, times the amount of the regular installment.

The first payment on the loan shall be due no sooner than 20 days, nor later than 50 days after the date upon which interest on the loan starts to accrue. Subsequent payments shall be required monthly.

### **5.08 Prepayment**

There shall be no penalties or charges in the event all or part of a loan is prepaid.

### **5.09 Security**

Mortgages are required in the following circumstances:

- A. When the principal amount of the loan is in excess of \$5,000.
- B. When the sum of the new loan and the unpaid principal balances of all previously received Minnesota Housing loans of the borrower exceeds \$5,000.
- C. When dictated by normal and prudent lending practices for loans less than \$5,000.

### **5.10 Guarantors**

When a guarantor is required as a condition of making a loan, the following conditions must be met:

- A. The guarantor must be a reasonable credit risk, as evidenced by a written credit investigation to be included in the file, in accordance with Section 4. Underwriting Information/Analysis,
- B. The repayment ability of the guarantor must be analyzed, and debt and income information must be documented in accordance with Section 4. Underwriting Information/Analysis, and
- C. The guarantor must complete applicable sections of the Rental Rehabilitation Loan Program Application to be included in the loan file.

### **5.11 Other Sources of Funds**

At the time of application, conventional financing for the proposed improvements must not otherwise be available from private lenders upon equivalent terms and conditions.

### **5.12 Requesting Individual Commitments**

- A. Commitment pool - Minnesota Housing has established a pool of funds called the commitment pool, from which Lenders may request a commitment of funds for individual loans. Funds in the commitment pool will be made available for the purchase of eligible loans on a first come, first-served basis.
- B. Requesting a commitment of funds - Once a Lender has obtained a fully executed Rental Rehabilitation Loan Program Application, bids and estimates of the proposed improvements, and determined that a borrower meets the Program requirements, an individual commitment of funds is requested by submitting a completed Rental Rehabilitation Loan Program Commitment Form via email, fax, or mail. Such a reservation of funds will be evidenced by means of the Minnesota Housing Individual Commitment and Note Submission Voucher, which is sent to the Lender immediately upon funds being reserved.
- C. Important deadlines related to commitment of funds - A commitment of funds will automatically expire if the loan for which the commitment was granted is not received by Minnesota Housing within 120 days of the date of the commitment of funds, or 14 days after the end of the participation term, as defined in Section 1.02, whichever occurs first. All loans must be closed during the participation term. Requests for extensions of such fund reservations will be determined on a funds-available basis.

### **5.13 Prior Approval**

Minnesota Housing may grant prior approval, in written form, of certain aspects of a loan application, which is in accordance with the provisions of this Procedural Manual, prior to the closing of the loan. In order to assist the Lender in interpreting Minnesota Housing policy in the case of difficult or unusual loan applications, Minnesota Housing has established a procedure whereby the Lender may submit particular aspects of a loan for approval prior to loan closing.

In general, Minnesota Housing will pre-review issues related to improvements, affordability and ownership. Minnesota Housing will only comment on the credit risk a loan represents when the loan would qualify under the Lender's normal and prudent underwriting standards.

- A. Required documents - Each prior approval submission shall include reproduced copies of a completed Rental Rehabilitation Loan Program Application, and any other documents necessary to effectively review the proposed loan.
- B. Consumer notices - The Lender shall retain the responsibility of making all notifications to the applicant, as required by state and federal regulations. Such notifications shall include the notice of adverse action, or the statement of credit denial, as required by federal law.
- C. Notification to Lender of prior approval - If Minnesota Housing approves one or more of the items eligible for prior approval, a notice of such approval will be sent to the Lender stating what was approved and the conditions of the approval. If after obtaining prior approval a loan is made, the notice of such approval should accompany the note submission package. Prior approval does not guarantee purchase of a loan. The approval indicates only that no deficiency exists in the approved item that would prevent Minnesota Housing from purchasing the loan.

#### **5.14 Documentory Requirements**

- A. Note Submission Package – The Note Submission Package is defined as the loan and all documents required by the Procedural Manual. It must be forwarded to Minnesota Housing within fourteen days of the note date, and include the following:
  - 1. The Rental Rehabilitation Loan Program Individual Commitment and Note Submission Voucher, executed by a loan processor of the Lender.
  - 2. The original signed promissory note, bearing the signed endorsement by Lender, duly completed and executed.
  - 3. The credit application, including:
    - a. The Rental Rehabilitation Loan Program Application, dated current within three months of closing, containing:
      - i. Specification of the type and estimated cost of improvements, and identification of any contractor(s). Minnesota Housing reserves the right to require verification of improvement costs as it deems necessary,
      - ii A cash flow analysis of the property,
      - iii. Signatures of the borrower(s).
    - b. Contractor(s) Warranty indicating contractor(s) acceptance of the warranty provisions.
    - c. Initial Housing Quality Standards Property Inspection Report.
    - d. Lead Based Paint Summary Sheet and Checklist for Rehabilitation.
    - e. Lead Based Paint Risk Assessment, if applicable.
    - f. Energy Standards Audit performed by a certified energy auditor.
    - g. An appraisal, market analysis or property tax statement indicating the estimated value of the property, dated within one year of loan closing.

- h. Dated within six months of loan closing, evidence of the applicant's ownership interest in the property to be improved, such as an Owners & Encumbrance Report and copy of conveyance documents, or title insurance commitment.
- i. A personal financial statement of the borrower(s), dated within three months of closing.
- j. Written evidence of verification of all major sources of income, and any other income sources relied upon for repayment of the loan, dated within three months of closing.
- k. Written evidence of credit review, dated within three months of closing.

A separate credit application is required for each loan submitted for purchase. If requesting funds for multiple properties, a credit application must be completed for each property.

- 4. Characteristics of Tenant Households (CTH) form,
- 5. Escrow Agreement
- 6. If the loan is secured, the following documents must be submitted with the file:
  - a. The notice of right of rescission, when applicable,
  - b. A legible copy of the mortgage, and
  - c. A legible copy of the assignment of mortgage.
- B. Post Closing Submissions - The original or certified copies of the mortgage and assignment of mortgage must be submitted immediately after recording or registration has taken place.

Immediately upon completion of the work, a copy of the executed Rental Rehabilitation Loan Program Completion Certificate for final payment, and Lead Based Paint Clearance if applicable, must be sent to Minnesota Housing.

### **5.15 Promissory Note**

The promissory note evidences indebtedness for the proceeds of a Loan, whether or not secured by a lien on real estate, which in addition, (1) requires the loan to be non-assumable and due on sale, and (2) permits Minnesota Housing to accelerate the indebtedness if the Borrower defaults. The following must also be true of the promissory note:

- A. All borrowers execute the note, and guarantors, if any, execute guarantees, on the form supplied by Minnesota Housing, showing the Lender's name as payee. The note must be endorsed to Minnesota Housing. The Lender is fully liable for all warranties and representations made to Minnesota Housing regardless of who does the originations and/or packaging of note.
- B. The note must be prepared in compliance with the federal truth-in lending disclosures.
- C. Interest shall accrue from the date of the note

The Lender is responsible for collecting loan payments that may become due prior to purchase of the loan by Minnesota Housing.

### **5.16 Note Purchase Procedures**

Minnesota Housing will send acknowledgment to the Lender upon purchase of a loan, via the Lender's Certificate. Loans acceptable to Minnesota Housing will be identified; those loans determined not eligible for purchase, if any, will not be purchased by Minnesota Housing.

Promptly after delivery to Minnesota Housing of the Note Submission Package, in proper form and duly executed and acceptable to Minnesota Housing, Minnesota Housing shall make payment to the Lender of the full amount of the purchase price as specified in this procedural manual.

If after 90 days of receipt by Minnesota Housing of a loan submitted for purchase, Minnesota Housing has been unable to obtain from the Lender such documentation as was not initially submitted or was submitted incorrectly, Minnesota Housing may refuse to purchase the loan and return it to the Lender.

### **5.17 Purchase Price**

The purchase price of eligible Loans to be acquired by Minnesota Housing shall be equal to the sum of the following items:

- A. The original principal balance of such loans. The principal balance may not include the cost of credit life and accident and health insurance, though the borrower may purchase the insurance independently. The Lender may charge the borrower for, and finance in the principal balance of the loan, fees for actual expenses incurred in connection with the loan, as approved in this Procedural Manual.
- B. A processing fee of \$500 for each loan.

### **5.18 Possession of Loan File**

The Lender shall submit the entire loan file with all original documents to Minnesota Housing in the Note Submission Package. The Lender shall retain copies of required documents.

### **5.19 Inspection**

Under provisions agreed to by the borrower in the Rental Rehabilitation Loan Program Application and the Escrow Agreement, Minnesota Housing, the Lender, or an authorized representative shall have the right to inspect the property to be improved at any time from the date of the note, upon giving due notice to the occupant(s).

### **5.20 Servicing**

Servicing and payment collections for loans purchased by Minnesota Housing shall generally be the sole responsibility of Minnesota Housing or of those servicing institutions, which Minnesota Housing may designate in its sole option and discretion. Minnesota Housing or its servicer may request collection assistance from the Lender on loans originated by that Lender. Minnesota Housing contracts with an outside loan servicer that provides payoff information, issues satisfactions, etc.

AmeriNational Community Services, Inc.

Documents/Correspondence: 217 South Newton Avenue, Albert Lea, MN 56007

Payment: PO Box 7024, Albert Lea, MN 56007

Phone Number: 888-263-7628 (Toll Free)  
Ext. 1831 (Customer Service)

### **5.21 Subordination Policy**

Minnesota Housing shall not grant a subordination request prior to one year after completion of improvements. If a borrower requests a subordination of the Minnesota Housing mortgage in order to obtain a new first mortgage or other financing using the property as security, Minnesota Housing will consider the subordination request subject to the following subordination policy:

Cash Out Transactions – If the borrower is receiving proceeds from the transaction, the proceeds must be used to improve/repair the property. The improvement/repair funds must be held for disbursement by either the Lender or a title company, with any excess funds being applied directly to the principal of the new loan. The new financing cannot be an open-ended line of credit.

The following documentation is required to review/process subordination requests:

- A. Written request for the subordination of mortgage;
- B. Correct legal description of property;
- C. For all debts using the property as security, the outstanding principal balance(s), monthly payment(s), interest rate(s) and remaining term(s);
- D. Cash-flow analysis of the property, ensuring remaining financial feasibility;
- E. Commitment letter from the lender, which at a minimum, specifies terms of the new mortgage (monthly payment, interest rate, term, payment schedule, etc), and the name and phone number of the loan representative for the new mortgage;
- F. Current appraisal;
- G. Copy of the commitment for title insurance policy showing all liens and encumbrances and their priority;
- H. Copy of the good faith estimate/settlement statement or other acceptable statement of closing costs.

A \$200 review/processing fee will be required for all subordination requests. Please allow two weeks after receipt of all required documentation to receive a copy of the executed subordination agreement on form provided by Minnesota Housing. After the closing, a copy of the recorded subordination agreement must be forwarded to Minnesota Housing.

### **5.22 Remedies**

Minnesota Housing reserves the right to refuse to purchase notes or loans from any Lender due to any reasonable basis for disqualification, as Minnesota Housing may, in its sole discretion, determine. In the event that:

- A. A Lender submits a Note Submission Package on behalf of a borrower or property that does not qualify for a Minnesota Housing loan, or
- B. A Lender fails to comply with the procedures set forth in this procedural manual:

Minnesota Housing shall have the right to take one or more of the following actions:

- A. If the loan has not yet been purchased, Minnesota Housing may refuse to purchase the loan.
- B. If the loan has already been purchased, Minnesota Housing may require the Lender to repurchase the loan for a price equal to the sum of the outstanding principal balance of the loan, together with interest accrued to the date of repurchase, the processing fee received by the Lender at the time the loan was purchased by Minnesota Housing, and any attorney's fees, legal expenses, court costs or other expenses that may have been incurred by Minnesota Housing in connection with such loan and the repurchase thereof.
- C. Minnesota Housing may, at its discretion, cancel the Lender's purchase agreement.
- D. Minnesota Housing may assert any other remedies that are available to it.

## Chapter 6 – Fair Housing Policy

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

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

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

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

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

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

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

## Definitions

### Lead Based Paint Definitions

**Clearance examination** – conducted by a certified lead-based paint inspector, risk assessor or clearance/sampling technician after lead hazard reduction activities are completed in a unit, common area serving the unit, and exterior areas where hazard reduction took place. Clearance following abatement shall be performed by persons certified to perform risk assessments or lead-based paint inspections. Clearance examination of activities other than abatement may be performed by a licensed lead inspector, a risk assessor, or a certified clearance technician.

**Interim Controls** – temporarily reduce exposure to lead based paint hazards through repairs, painting, maintenance, special cleaning, occupant protection measures, clearance, and education programs. With continued maintenance, interim controls may last for many years.

**Lead Safe Work Practices** – include occupant protection, worksite preparation, avoidance of prohibited practices and worksite clean up.

**Paint Testing** – process of testing selected painted surfaces (usually those surfaces with paint deterioration and surfaces that will be disturbed during rehab) to determine if they contain lead based paint, using methods such as portable XRF (X-ray fluorescence) lead-in-paint analyzer or laboratory analysis of paint chip samples. A certified lead inspector or Risk Assessor must complete paint testing.

**Risk Assessment** – the process of determining and then reporting the existence, nature, severity, and location of lead-based paint hazards in housing through an on-site investigation and the possible means of correcting any hazards identified. Risk Assessments must be completed by a certified Risk Assessor.

**Visual assessment** – a surface-by-surface inspection for deteriorated paint consisting of a visual search for cracking, scaling, chalking, peeling, or chipping paint, dust and debris, including paint chips. The person conducting the visual assessment for deteriorated paint must be trained using the Visual Assessment Training Module available at the HUD website.

## HQS Rehabilitation Standards

All rehabilitated properties, after work is completed, must meet or exceed Housing Quality Standards. These standards include the following:

### A. Sanitary facilities

1. Performance requirement. The dwelling unit shall include its own sanitary facilities, which are in proper operating condition, can be used in privacy, and are adequate for personal cleanliness and the disposal of human waste.

Work on individual water supply and sewage disposal systems is allowed in order to bring such systems into compliance with local, state, or federal environmental and sanitary standards.

Additions may be allowed in cases of inadequate or inaccessible indoor bathroom facilities, only if no other space in the structure is appropriate for such facilities. Include a detailed floor plan of the existing structure and the proposed addition.

2. Acceptability criteria. A flushable toilet in a separate, private room, a fixed basin with hot and cold running water, and a shower or tub with hot and cold running water shall be present in the dwelling unit, all in proper operating condition. These facilities shall utilize an approved public or private disposal system.

### B. Food preparation and refuse disposal

1. Performance requirement. The dwelling unit shall contain suitable space and equipment to store, prepare and serve foods in a sanitary manner. There shall be adequate facilities and services for the sanitary disposal of food wastes and refuse, including facilities for temporary storage where necessary (e.g., garbage cans).

Kitchen additions may be allowed only in cases where the current kitchen facilities are an extreme health or safety hazard. Pictures of the current kitchen as well as a floor plan of the entire structure must be included in the note submission package. A floor plan of the proposed addition must also be submitted.

2. Acceptability criteria. The unit shall contain the following equipment in proper operating condition: cooking stove or range and a refrigerator of appropriate size for the unit (supplied by the Owner) and a kitchen sink with hot and cold running water. The sink shall drain into an approved public or private system. Adequate space for the storage, preparation and serving of food shall be provided.

### C. Space and security

1. Performance requirement. The dwelling unit shall afford the family adequate space and security.
2. Acceptability criteria. The dwelling unit shall contain a living room, kitchen area, and bathroom. The dwelling unit shall contain at least one bedroom or living/sleeping room of appropriate size for each two persons. Persons of opposite sex, other than husband and wives or very young children shall not be required to occupy the same bedroom or living/sleeping room. Exterior doors and windows accessible from outside the unit shall be lockable.

If an addition is proposed, include a detailed floor plan of the existing structure and the proposed addition.

D. Thermal environment

1. Performance requirement. The dwelling unit shall have and be capable of maintaining a thermal environment healthy for the human body.

Energy saving features shall be consistent with the energy standards promulgated as part of the State Building Code, but such improvements need not bring the property into compliance with such energy standards. Minnesota Housing recommends that whenever possible Rental Rehabilitation Loan Program funds should be coordinated with other energy saving programs.

2. Acceptability criteria. The dwelling unit shall contain safe heating and/or cooling facilities, which are in proper operating condition and can provide adequate heat and/or cooling to each room in the dwelling unit appropriate for the climate to assure a healthy living environment. Unvented room heaters, which burn gas, oil, or kerosene are not acceptable.

E. Illumination and electricity

1. Performance requirement. Each room shall have adequate natural or artificial illumination to permit normal indoor activities and to support the health and safety of occupants. Sufficient electrical sources shall be provided to permit use of essential electrical appliances while assuring safety from fire.

Minnesota Housing recommends that ground fault interrupters be installed in all bathrooms, in outlets that are within six feet of kitchen sinks, or laundry and in outside outlets of dwellings being improved with loan funds, unless:

- a. ground fault interrupters are already in place, or
  - b. priority must be given to other needed improvements.
2. Acceptability criteria. Living and sleeping rooms shall include at least one window. A ceiling or wall type light fixture shall be present and working in the bathroom and kitchen area. At least two electric outlets, one of which may be an overhead light, shall be present and operable in the living area, kitchen area, and each bedroom area.

F. Structure and materials

1. Performance requirement. The dwelling unit shall be structurally sound so as not to pose any threat to the health and safety of the occupants and so as to protect the occupants from the environment.

Work on detached garages is allowed only if the existing condition presents a clear and imminent safety hazard or is necessary for lead paint abatement.

Demolition of outbuildings is allowed:

- a. When such clearance is required by the local building code. Evidence of code violation must accompany the note submission package.
- b. Necessary for lead paint abatement.

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

2. Acceptability criteria. Ceilings, walls, and floors shall not have any serious defects such as severe bulging or leaning, large holes, loose surface materials, severe buckling or noticeable movement under walking stress, missing parts or other serious damage. The roof structure shall be firm and the roof shall be weather tight. The exterior wall structure and exterior wall surface shall not have any serious defects such as serious leaning, buckling, sagging, cracks or holes, loose siding, or other serious damage. The condition and equipment of interior and exterior stairways, halls, porches, walkways, etc., shall be such as not to present a danger of tripping or falling.

### G. Interior air quality

1. Performance requirement. The dwelling unit shall be free of pollutants in the air at levels, which threaten the health of the occupants.
2. Acceptability criteria. The dwelling unit shall be free from dangerous levels of air pollution from carbon monoxide, sewer gas, fuel gas, dust, and other harmful air pollutants. Air circulation shall be adequate throughout the unit. Bathroom areas shall have at least one operable window or other adequate exhaust ventilation.

### H. Water supply

1. Performance requirement. The water supply shall be free from contamination. Water drawn from a valid well must be potable (safe for drinking) and must be free of sand, grit, or other materials which might damage the pump or plumbing. Water need not be free from minerals, which may make it cloudy, nor must it be free from an odor.

Well drilling is allowed provided the cost of well drilling (excluding dry holes and pump installation) does not exceed \$5,000 and that a written statement accompanies the application indicating that funds will be available through another specified source of financing for any costs in excess of \$5,000. Up to \$150 may be paid for dry holes.

2. Acceptability criteria. The unit shall be served by an approved public or private sanitary water supply.

### I. Lead-based paint

1. Performance requirement.
  - a. In houses built prior to 1978 all defective paint surfaces must be repaired.
  - b. When a resident has been identified by the local Health Department as having an elevated blood lead level (EBL) all lead-based paint in the residence must be abated.

Federal regulations pertaining to housing constructed or rehabilitated with federal funds, and Minnesota Statutes both stipulate that when medical testing laboratories encounter EBL in children under six years old, the testing agency is required to report this condition to the local health department; whereupon the child's environment (home, school, day-care, etc.) must be tested for the presence of lead in dust, soil, water, and paint.

When lead above certain limits is in the living environments of a child under seven years old having an EBL, or a pregnant woman, both federal and state regulations explicitly stipulate how and by whom the lead hazard is abated. Minnesota laws stipulate that contractors registered by the State of Minnesota for the purpose of

lead abatement must perform lead-based paint abatement. A list of registered contractors may be obtained from the Department of Health.

- c. Where an EBL has been diagnosed and documented for a resident of a rental dwelling unit, Minnesota Housing requires strict compliance with these federal and state lead abatement regulations.
- d. Where no EBL has been diagnosed or documented, and applicants know or suspect that the property may be lead contaminated, the applicant may stabilize the known or suspected lead contamination without prior testing. State statutes stipulate that known lead hazards must be stabilized in accordance with these federal and state regulations.

In order to protect the occupants from suspected lead hazards, and to protect the contractor from potential liability incurred by faulty methods, Minnesota Housing strongly recommends that owners' stabilization of suspected lead hazards be performed in strict accordance with federal and state regulations.

Improper stabilization of suspected lead hazards may actually increase both the amount of ingestible lead particles and the health risk in residential environment.

Additional information and assistance in interpreting federal and state lead abatement regulations is available from the local health department, the Minnesota Department of Health, the local HUD program Lender, and registered lead-based paint contractors.

- e. When stabilization is necessary it may be accomplished by:
  - i. Removal from the substrate and replacement with a new substrate; or
  - ii. Removal from the substrate by:
    - 1). Misted scraping or misted wire brushing;
    - 2). Stripping with chemical paint strippers whether on site or off-site with removal of chemical strippers from surfaces and direct placement into leak-proof containers;
    - 3). Heating with a heat gun that does not exceed 700 degrees Fahrenheit;
    - 4). Exterior abrasive blasting;
    - 5). Exterior modified-wet abrasive blasting; or
    - 6). Vacuum blasting.

All testing and stabilization shall be performed according to the standards set forth in Minnesota Statutes Section 4761.0500.

J. Access

- 1. Performance Requirement. Each dwelling unit shall be usable and capable of being maintained without unauthorized use of other private properties, and the building shall provide an alternate means of egress in case of fire.
- 2. Acceptability criteria. Each dwelling unit shall be usable and capable of being maintained without unauthorized use of other private properties. The building shall provide an alternate means of egress in case of fire (such as fire stairs or egress through windows).

## RENTAL REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

### K. Site and neighborhood

1. Performance requirement. The site and neighborhood shall be reasonably free from disturbing noises and reverberations and other hazards to the health, safety, and general welfare of the occupants.
2. Acceptability criteria. The site and neighborhood shall not be subject to serious adverse environmental conditions, natural or manmade, such as dangerous walks, steps, instability, flooding, poor drainage, septic tank back-ups, sewage hazards or mud slides; abnormal air pollution, smoke or dust; excessive noise, vibration or vehicular traffic; excessive accumulations of trash; vermin or rodent infestation; or fire hazards.

### L. Sanitary condition

1. Performance requirement. The dwelling unit and its equipment shall be in sanitary condition.
2. Acceptability criteria. The units and its equipment shall be free of vermin and rodent infestation.

### M. Manufactured Home

1. Performance requirement. A manufactured home unit shall comply with the foregoing standards. In addition, a manufactured home unit shall:
  - a. Meet the definition of a manufactured home set forth in CFR 882.102, "A structure, with a permanent foundation, which is built on a permanent chassis, is designed for use as a principal place of residence, and meets the Housing Quality Standards;"
  - b. Be equipped with at least one smoke detector in working condition; and
  - c. Must be placed on the site in a stable manner and be free from hazards such as sliding or wind damage.
2. Acceptability criteria. A manufactured home must be securely anchored.

### N. Accessibility Improvements

1. Performance requirement. A disabled person's primary residence shall be reasonably accessible. The ability to enter and exit the house and to use the bathroom is given priority.
2. Accessibility improvements may include such items as: construction of ramps, installation of handrails and grab bars; replacement of bathtubs with wheel-in showers; lowering of items such as sinks, electrical switches, and cupboards; widening of doorways; and provision of bathroom and/or bedroom space on the first floor level of the dwelling.

If a major structural change or exterior work is involved, sketches of the existing structure and proposed work must be completed and submitted to Minnesota Housing for prior review with the note submission package.

## **Program Contact**

Contact Susan Haugen, Program Manager, at 651.296.9848, or [susan.haugen@state.mn.us](mailto:susan.haugen@state.mn.us) for any questions concerning this program.