Minnesota Housing Mortgage Loans Start Up Program

Procedural Manual

September 1, 2026

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Chapter 1 – Introduction

1.01 Minnesota Housing Mission Statement

Housing is foundational to a full life and a thriving state, so we equitably collaborate with individuals, communities and partners to create, preserve and finance housing that is affordable.

1.02 Values Statement

Our vision is that all Minnesotans live and thrive in a stable, safe and accessible home they can afford in a community of their choice.

To achieve this vision, we will reorient how we work and expand who has a voice at the table and who participates in and benefits from our programs and the housing economy. We acknowledge and understand the intentional harms of the past, how they came to be and persist today, and our responsibility to correct them and remove barriers.

We will:

- Center the people and places most impacted by housing instability at the heart of our decision-making,
- Listen and share the power we have,
- Honor, respect and strengthen communities, and
- Be inclusive, equitable, just and antiracist in our actions.

1.03 Background

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

Minnesota Housing offers two mortgage loan programs to serve low- and moderate-income homebuyers (defined in state law as “persons and families of low and moderate income”):

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

Lenders originate and close loans under their individual underwriting and closing procedures. A Master Servicer purchases and securitizes closed loans originated by a Lender under prescribed program requirements. Lenders are advised that underlying eligible product guidelines and Master Servicer

requirements apply, which may be more restrictive than the Minnesota Housing guidelines. Minnesota Housing's current Master Servicer is U.S. Bank Home Mortgage—Housing Finance Agency Division (U.S. Bank – HFA Division).

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

1.04 Start Up Loan Program

The Start Up Program is a Mortgage Revenue Bond Program which offers loans throughout Minnesota to low- and moderate-income, First-Time Homebuyer Borrowers through local participating Lenders.

1.05 Deferred Payment Loan

The Deferred Payment Loans provide an interest-free deferred loan to assist Borrowers with downpayment and closing costs. See Chapter 7 for the Deferred Payment Loan guidelines. The Deferred Payment Loan is structured to require a lump-sum balloon payment at loan maturity.

1.06 Monthly Payment Loan

The Monthly Payment Loan provides an amortizing loan with an interest rate equal to the first mortgage to assist Borrowers with downpayment and closing costs. See Chapter 7 for the Monthly Payment Loan guidelines.

Chapter 2 – Responsible Lending

2.01 Procedural Manual

Participating Lenders must execute a Participation Agreement with Minnesota Housing to participate in Minnesota Housing's Single Family Mortgage Programs. This Procedural Manual, which may be updated or amended, is incorporated into the Participation Agreement by reference and Participating Lenders are obligated to adhere to both the Participation Agreement and the Procedural Manual.

Minnesota Housing reserves the right to:

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

2.02 Single Family Responsible Lending Policy

Minnesota Housing uses prudent, sound and responsible business practices in marketing and product design related to its Single Family loan programs. Minnesota Housing designs programs with a focus and goal of successful homeownership, which means Borrowers must have the knowledge, ability, willingness and capacity to repay their housing debt. Minnesota Housing does not offer subprime or high-cost mortgage lending programs. Minnesota Housing reviews portfolio and market conditions regularly to ensure that business practices are updated as needed to meet its responsible lending goals.

In delivering Single Family loan programs, Minnesota Housing policies address:

- Lender relationships and a Lender's role and responsibility in originating and delivering quality, compliant loans under the Minnesota Housing program. These responsibilities include:
    - Lender must evaluate a Borrower's repayment capacity, including evaluating risk layering and documenting sources of Borrower income(s), Borrower assets and Borrower liabilities
    - Lenders are prohibited from steering
    - Lenders must comply with all rules and regulations for higher priced mortgage loans. Higher priced mortgage loans are defined in 12 CFR 1026.35 (Regulation Z)
    - Lenders are prohibited from delivering high-cost mortgage loans as defined in 12 CFR 1026.32 (Regulation Z)
    - Loans containing prepayment penalties or mandatory arbitration clauses are not permitted

    - Single Premium Credit Life Insurance may not be required, nor can any funds provided by Minnesota Housing be used toward the purchase of any credit insurance products or premiums
- Compliance with the Interagency Guidelines on Nontraditional Mortgage Product Risks
- Compliance with all local, state and federal regulations as well as Minnesota Housing program guidelines as applicable to each individual loan transaction

2.03 Evidence of Misconduct

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, the Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower(s) or others, the Lender must promptly report the discovery to Minnesota Housing and U.S. Bank – HFA Division.
- Minnesota Housing, or U.S. Bank – HFA Division, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender or the Borrower(s). This includes possible repayment of loan funds, repayment of administrative costs, repayment of fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs, or any other expenses incurred in connection with the loan or its recovery.

2.04 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number

The Minnesota Revenue Recapture Act (Minnesota Statutes, Sections 270A.01 to 270A.12, as amended) allows the disclosure of the Borrower(s) Social Security Number to the Minnesota Department of Revenue.

This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower(s) to Minnesota Housing.

This collection remedy is in addition to and not in substitution for any other remedy available by law (Minn. Stat. 270A.04, subd. 1).

2.05 Unauthorized Compensation

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

- Kickbacks
- Commissions
- Other compensation in violation of state or federal law including but not limited to the Real Estate Settlement Procedures Act (RESPA)

2.06 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by U.S. Bank – HFA Division. Minnesota Housing reserves the right to conduct quality control, audit and monitoring activities at its sole discretion upon written notice to Lender.

Audited loans are reviewed for:

- Adherence to state and federal laws regulating mortgage lending and applicable income limits
- Mortgage revenue bond law compliance
- Minnesota Housing program and policy compliance
- Fraud or misrepresentation on the part of any party involved in the transaction
- Trends or other indicators that may have an impact on the success of the Borrower(s) and programs

Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by U.S. Bank – HFA Division.

2.07 Termination of Lender Participation

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

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

Upon termination of a Lender's Participation Agreement:

- U.S. Bank – HFA Division may continue to purchase eligible loans delivered to U.S. Bank—HFA Division for loans originated prior to the termination.
- Minnesota Housing will not refund participation fees to the Lender.

Remedies and Reinstatement

- Minnesota Housing may, at its option, impose remedies other than termination of the Participation Agreement for Lender nonperformance.
- The Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender is at Minnesota Housing's and U.S. Bank – HFA Division's sole discretion.

2.08 Representations and Warrants

The Lender must comply with all applicable federal, state, and local laws, ordinances, regulations, and orders related to mortgage lending, including, but not limited to, any rules that the Lender may be subject to, related to mortgage lending or based on their legal organizational structure.

In addition, the Lender must comply with the documents listed below and will ensure that the person who confirms the loan on Minnesota Housing's loan commitment system and who verifies the Lender's Representations and Warranties on behalf of the Lender, has both the authority to legally bind the Lender and is fully conversant with:

- U.S. Bank – HFA Division requirements as published in AllRegs
    - The U.S. Bank – HFA Division Lender Guide, unless those terms, conditions, and requirements are specifically waived by Minnesota Housing or U.S. Bank – HFA Division, as applicable, in writing.
    - US Bank AllRegs section 500 for Minnesota Housing and Section 1400 credit overlays
- Minnesota Housing program requirements
    - The Participation Agreement
    - This Procedural Manual
- Underlying loan product and insurer/guarantor requirements

2.09 Lender Compensation

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

- 2.50% is the maximum compensation a Lender may retain on any Minnesota Housing loan file between origination/discount fees and Service Release Premium – see the Lock, Fee, and SRP Guide.
- The Lender receives a service release premium (SRP) paid by U.S. Bank – HFA Division in an amount established by Minnesota Housing and posted on the Minnesota Housing website.

- The Lender may collect an origination fee or discount point from the Borrower(s) in accordance with industry standard regulations and limited as follows:
    - Origination fee and Discount points cannot exceed 1% when using either the 1.5% SRP option or the 3.5% SRP option (the 3.5% SRP option helps to cover Upfront Paid Mortgage Insurance costs).
    - Lender cannot charge any origination fee or discount points with the 2.5% SRP options.

2.10 Annual Renewal Requirements

- The Lender must confirm willingness to participate in the Minnesota Housing loan programs on an annual basis. This is done by completing the Annual Renewal Forms.

2.11 Marketing Materials Terms of Use

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

Chapter 3 – Master Servicer

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

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

Chapter 4 – Borrower Eligibility

4.01 Borrower

One individual or multiple individuals are eligible to be a Borrower only if the individual(s) meets the requirements set forth in this Procedural Manual.

4.02 Borrower Age

The Borrower(s) must be eighteen years of age or older or legally emancipated.

4.03 Co-Signers

Co-Signers are permitted on Start Up Program loans. Co-Signers must sign the Start Up Program loan note and the downpayment and closing cost loan note, if applicable. Co-Signers are not vested in title to the property and are not required to reside in the subject property. See Section 4.09.

4.04 Prior Homeownership - Three-Year Requirement

All Borrowers and their current spouses — even spouses who are not buying the home — must not have owned a home they lived in as their primary residence at any time during the three years before the loan closing. This rule applies to anyone who will sign the mortgage note and has an ownership interest in the property being financed. See chart below.

Table 1/ Prior Year Requirements

Person	Resides in Property	Three-year requirement must be verified
Borrower	Yes	Yes
Co-Borrower	Yes	Yes
Co-Signer, occupant	Yes	Yes
Co-Signer, non-occupant (not allowed to be on title)	No	No
Spouse, occupant, non-purchasing	Yes	Yes
Spouse, non-occupant, non-purchasing	No	No
Non-occupying Co-Signer's spouse	No	No
Other occupant, non-purchasing (on title)	Yes	Yes
Other occupant, non-purchasing (not on title)	Yes	No

Types of interest that constitute ownership interest include:

- A fee simple interest
- A joint tenancy, a tenancy in common, or a tenancy by the entirety
- The interest of a tenant shareholder in a cooperative
- A life estate
- A leasehold estate or a leasehold estate subject to a Community Land Trust
- A land contract, under which possession, benefits, and burdens of ownership are transferred although legal title is not transferred until a later time
- An interest held in trust for the Borrower(s) (whether or not created by the Borrower(s)) that would constitute a present ownership interest if held directly by the Borrower(s)
- A vendee interest in a contract for deed with a term greater than 24 months
- An ownership interest in a mobile or manufactured home that is permanently affixed to a foundation on the real property on which it is located.
- A marital interest in real property pursuant to the law of the state or country where that property is located.

Interests that do not constitute an ownership interest include:

- A remaindermen interest
- An ordinary lease with or without an option to purchase
- A mere expectancy to inherit an interest in a Principal Residence
- The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate
- An interest in a non-Principal Residence during the three-year period prior execution of the mortgage loan documents (e.g. an investment property, a recreational or seasonal home)
- An ownership interest in a mobile or manufactured home which is not permanently affixed to real estate (e.g., anchored to the ground instead of attached to a foundation)
- An interest acquired through temporary financing (e.g., construction loan, bridge loan, contract for deed) with an initial term of 24 months or less

Review of documentation - All documentation must be retained in the Lender's closed loan file:

The Lender must examine all documents collected in evaluating the Borrower's eligibility for the loan for any evidence that the Borrower(s) and any other person required to meet the 3-year requirement as outlined in the chart above, have not owned a Principal Residence during the three-year period prior to execution of the mortgage loan documents. Examples of documentation to be reviewed include:

- Credit report
    - must not show any previous mortgage loan(s) in the three-year period prior to execution of the mortgage loan documents, or if it does, follow the guidance for "Special Documentation for Current Ownership" below; and

- Final loan application
    - must not show an ownership interest in a Principal Residence in the three-year period prior to execution of the mortgage loan documents.
- If the Lender cannot verify the absence of ownership from a review of the credit report, final loan application, or other evidence, the absence of an ownership interest must be documented and verified by:
    - A title search with respect to the Borrower(s) residence(s) to document the Borrower was not on title to any real property they occupied within the three-year period prior to the closing date; and
    - A signed and dated letter of explanation from the Borrower(s) and any other person required to meet the 3-year requirement as outlined in the chart above, indicating they have not had an ownership interest in a Principal Residence within the three-year period prior to the closing date. The letter does not need to be on a specific form and does not need to be notarized.
- Special Documentation for Current Ownership: Borrower(s) and any other person required to meet the 3-year requirement as outlined in the chart above with a current ownership interest in a residence within the three-year period prior to execution of the mortgage loan documents must provide evidence (e.g. copy of rental agreement or lease) showing that they have not lived in the residence during the three-year period prior to execution of the mortgage loan documents.

4.05 Principal Residence/Occupancy Requirement

The Borrower(s) must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan. A certification of the owner occupancy must be made by the Borrower(s) on the Start Up Loan Program Affidavit.

4.06 Current Minnesota Housing Borrower Requirement

Borrowers may not have more than one MN Housing First Mortgage, one HAF/DPL/DPL+/MPL, and one First-Generation Homebuyer loan open at a time.

4.07 Qualified Homebuyer Education

At least one Borrower must complete an approved Homebuyer Education course prior to closing. A copy of the certificate of completion must be in the loan file. Minnesota Housing does not have a Homebuyer Education certificate expiration date policy. Approved Homebuyer Education courses are listed on the Minnesota Housing website.

4.08 Credit Scores and Debt-to-Income (DTI) Ratios

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

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

- Fannie Mae HFA Preferred™ Product Description
- Freddie Mac HFA Advantage® Product Description

Minnesota Housing offers these product descriptions and the following chart as resources for Lenders. Lenders must conduct their own due diligence in adhering to all underlying product and U.S. Bank – HFA Division requirements and not rely solely on the tools and/or information provided by Minnesota Housing, including the tools and/or information in this Procedural Manual. See AllRegs for additional, specific U.S. Bank – HFA Division requirements.

Table 2/Credit Score Guides

Credit Scores	Guidance
3 scores	Use the middle of the scores
2 scores	Use the lower of the two scores
1 score	Use the available score
Multiple Borrowers: all with credit scores	Use the lowest middle score available
Multiple Borrowers: at least one Borrower has a credit score, and the other Borrower(s) does not have a credit score	Defer to the underlying product guidelines
Sole Borrower or Multiple Borrowers: No score	Defer to the underlying product guidelines
Insufficient credit to support an AUS Approval or has erroneous, inaccurate, or disputed credit	Defer to the underlying product guidelines

4.09 Program Eligibility Income

The Start Up Program is for persons and families of low and moderate income. The total Program Eligibility Income must not exceed Start Up Program income limits which are posted on Minnesota Housing's website.

Household Members Whose Income Must Be Included

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

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

If the Borrower is legally married and the spouse is not expected to reside in the subject property, the loan file must contain either the Non-Occupant Spouse Statement or another statement signed by the borrowing spouse or non-occupant spouse indicating the spouse will not be occupying the home, will not be obligated to repay the loan and is not named in title to the subject property. See chart below.

Table 3/Income Eligibility Review

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

Any person whose income must be included in the Program Eligibility Income calculation but receives no income must sign either the Zero Income Statement or another signed statement indicating that he/she/they receive no income.

Program Eligibility Income Calculation

The Program Eligibility Income Worksheet posted on Minnesota Housing's Lender Portal has the Program Eligibility Income requirements. Lenders are responsible for calculating Program Eligibility Income based on these requirements. Always include all income received unless specifically excluded on the Program Eligibility Income Worksheet. For more details on definitions of income sources and income inclusions and exclusions, refer to the Program Eligibility Income worksheet.

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

- Base pay from an employer
- Additional pay from an employer (over and above base pay)
- Self-employment or business income
- Income from financial assets
- Government transfer payments, insurance or benefit payments
- Investment property net rental income
- Child or spousal support
- Regular cash contributions
- Employee allowances
- Custodial account income

For program eligibility income, provide documents dated within four months of the closing date to support your calculations. Within those four months, use the most recent information available.

Chapter 5 – Property Eligibility

5.01 Eligible Properties

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

- A single-family detached residence
- A unit within an eligible Planned Unit Development ("PUD")
- A condominium unit
- A duplex that meets the following requirements:
    - The Borrower(s) must occupy one unit of a duplex property
    - Duplex must have been a residential property for at least five years before the date of the new mortgage, i.e. cannot be new construction or recently converted from non-residential use
- A modular home
- A manufactured home that meets the following requirements:
    - A double wide or larger manufactured home, permanently affixed to a foundation and taxed as real property; and
    - Built to Federal Manufactured Home Construction Safety Standards, administered by U.S. Housing and Urban Development (HUD)

Additionally, eligible properties must meet the following, as applicable:

- Underlying eligible conventional loan product guidelines:
    - Fannie Mae HFA Preferred™ Product Description and Freddie Mac HFA Advantage® Product Description on Minnesota Housing's website.
    - If the underlying conventional product guidelines (Fannie Mae HomeReady™ and Freddie Mac HomePossible®) conflict with the Minnesota Housing conventional product descriptions above, defer to the Minnesota Housing conventional product descriptions.
- Underlying FHA, VA and USDA loan product guidelines
- U.S. Bank – HFA Division requirements located within AllRegs

5.02 Ineligible Properties

Properties not eligible for financing are as follows:

- A unit in a cooperative corporation or a limited equity cooperative corporation
- A recreational or seasonal home
- A single-wide manufactured home, even if permanently affixed to a foundation and taxed as real property
- A property intended to be used as an investment property (except the rental of a second unit in a duplex)
- A newly constructed duplex or a duplex converted from nonresidential use in the past five years
- A property where 15% or more of the total area of the property is used primarily in a trade or business in a manner which would permit the Borrower(s) to take a deduction for certain expenses incurred in connection with the business use of a home on the Borrowers' federal income tax return

5.03 Ownership Interest

Eligible forms of ownership interest include the following:

- Fee simple interest
- Joint tenancy
- Community Land Trust (CLT)
- Tenancy in common
- Tenants by the entirety
- Sole Ownership

5.04 Acquisition Cost Limit

The Acquisition Cost is the cost of acquiring an eligible property from the property seller as a completed residential unit. The Acquisition Cost of a property may not exceed the amounts listed on Minnesota Housing's website.

The Acquisition Cost includes:

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

- The purchase price as well as all repair costs for FHA 203K Streamlined loans.
- All land cost or land value as stated in New Construction Requirements Section 5.08 below.
- All special assessments paid or assumed by the Borrower(s).

The Acquisition Cost does not include:

- Usual and reasonable closing or financing costs
- Any special assessments paid by the property seller

5.05 Appraised Value

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

5.06 Personal Property

Personal property may not be financed by the Start Up Program and may not be listed on the purchase agreement between the Borrower(s) and property seller for the purchase and sale of the real property financed by that loan. Only permanently affixed property (fixtures) is eligible for financing.

5.07 Excess Property

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

- The financed land may not provide, other than incidentally, a source of income to the Borrower(s).
- The land may not comprise more than one parcel or be eligible for legal subdivision unless the appraiser states that the land is commensurate in size with other residential parcels in the community.
- If the land value exceeds 45% of the total appraised value, the appraiser must address in the appraisal whether the size of the lot is common or typical for the area.

5.08 New Construction Property Requirements

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

- The land must be zoned for residential housing.
- The cost of land purchased within 24 months before the date on which construction begins must be included in the Acquisition Cost.
- The value of land, as determined by the appraisal, must be used to determine the Acquisition Cost if the land was purchased more than 24 months before the date on which construction begins or purchased through a non-arm's length transaction.
- Any temporary financing (e.g. construction loan, bridge loan, contract for deed) provided before the date of the loan closing may not exceed a 24 month term.
- The land equity, defined as the dollar value of the difference between land value/cost and the total amount the Borrower owes against the land, may be used by a Borrower only as a downpayment on the loan.
- A certificate of occupancy or legal document that confirms a house is safe to inhabit must be issued for the property before loan closing.
- The Borrower(s) may not act as the general contractor.

See Section 6.02 for New Construction financing requirements.

Chapter 6 – Loan Eligibility

6.01 Eligible Loans

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

Eligible Loan Types:

- Purchase Transactions only

Eligible Government loan products:

- Federal Housing Administration (FHA), including
    - FHA purchase transactions
    - FHA 203(k) Limited
- Veterans Administration (VA)
- USDA Rural Development (RD)

Eligible Conventional Loan Products

- Fannie Mae HFA Preferred™
- Freddie Mac HFA Advantage®

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

Program loans must satisfy the following criteria:

- All local, state, and federal laws and regulations including those relating to the Fair Housing Act, the Truth in Lending Act (TILA) and Minnesota's Human Rights Act must be met.
- The Minnesota Housing First-Time Homebuyer's program income limits and property acquisition cost limit requirements must be met.
- Both the first mortgage loan and, if applicable, the second mortgage loan must be originated closed or assigned under the name of the lender who is a party to the Minnesota Housing Participation Agreement and who locked the loan(s) in the Minnesota Housing loan commitment system.

6.02 New Construction Loan Eligibility Requirements

In addition to the loan eligibility requirements already stated in this Procedural Manual (Section 6.01), a New Construction property must meet the following requirements:

- The program funds are not used for temporary initial financing (e.g. interim or construction financing).
- All sweat equity meets the requirements of the applicable loan product and insurer/guarantor, as well as the following:
- The work was done by the Borrower or members of a Borrower's family, specifically, the Borrower's brothers and sisters (whether by whole or half-blood), spouse, or lineal descendants
    - The individuals that did the work must be qualified to do the specific type of work
    - The maximum dollar amount of the sweat equity does not exceed $5,000
    - The sweat equity is not a part of the Acquisition Cost
    - The sweat equity includes only the value of work and not the cost of materials

6.03 Ineligible Loans

A Start Up Program loan cannot be used to acquire or refinance an existing mortgage loan. Certain existing Start Up Program Mortgage loans may be assumed, as described in section 10.03 Assumption/Due-On-Sale.

6.04 Refinancing of an Existing Mortgage

Borrowers may not use the Start Up Program to refinance an existing loan unless the Start Up Program loan replaces or refinances temporary initial financing. Borrowers may not have more than one MN Housing First Mortgage, one HAF/DPL/DPL+/MPL, and one First-Generation Homebuyer Loan open at a time.

6.05 Subsidy Recapture Statement

Federal law requires that all loans funded by mortgage revenue bonds be subject to subsidy recapture regulations. Subsidy recapture enables the federal government to collect some of the subsidy realized by Borrower(s) from the interest rate differential resulting from the mortgage revenue bond financing.

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

- The residence is sold within the first nine years of the closing date
- The Borrower realizes a gain on the sale of the residence (as defined by the IRS)

- The Borrower's income has increased since the closing date and exceeds the limits established by the IRS

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

- Explain subsidy recapture to the Borrower(s) at the time of loan application (see the Start Up Program Required Forms Summary)

Require the Borrower(s) to sign the completed Subsidy Recapture Statement at closing or as close to closing as possible

6.06 Interest Rate/Amortization Requirements

Minnesota Housing requires all loans:

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

The interest rates for Minnesota Housing loan programs are listed in the Lender Portal on the Homeownership Interest Rates page.

6.07 Mortgage Term

Minnesota Housing mortgage terms and SRP options can be found in the Lender Portal Homeownership Interest Rates page.

- All loans must have a 30-year term.

6.08 Private Mortgage Insurance Coverage Requirements

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

All private mortgage insurance companies must:

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

6.09 Settlement/Closing Costs

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

- Comply with all local, state and federal regulations as well as Minnesota Housing program guidelines as applicable to each individual loan transaction
- Meet all requirements of the insurer/guarantor
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal)
- Ensure the Borrower does not pay more than a pro-rata share of property taxes

Additional limits:

- The total points and fees on the first mortgage cannot exceed 5% of the loan amount. See point and fees definition in 12 CFR 1026.32(b)(1) (Regulation Z)
- Lender may not charge lender fees on any Minnesota Housing downpayment and closing cost loans (e.g. processing fee, underwriting fee, origination fee, etc.).
- Some third-party fees are allowed. See list of allowable third-party fees in the Lock, Fee, and SRP Guide.
- See Lock, Fee, and SRP Guide for information on servicer fees that may be charged at loan closing.
- Lender may not charge a "Minnesota Housing fee" (or similar) for processing/originating a Minnesota Housing first or subordinate loan.

6.10 Gifts

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

6.11 Non-Complying Loans

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

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

Chapter 7 – Downpayment and Closing Cost Loans

The downpayment and closing cost loan programs eligible to be used with the Start Up Program are the Deferred Payment Loan (including the Deferred Payment Loan Plus option), and the Monthly Payment Loan. (See the Downpayment and Closing Cost Loan Comparison Chart).

7.01 Eligible Use of Downpayment and Closing Cost Loans

Minnesota Housing downpayment and closing cost loans provide funds for downpayment and eligible expenses including customary buyer closing costs, prepaid expenses for taxes and insurance (homeowners, flood and mortgage insurance) and association fees as applicable.

7.02 Ineligible Use of Downpayment and Closing Cost Loans

Minnesota Housing downpayment and closing cost loans cannot be used for any costs not covered in the Eligible Use of Funds section 7.01 above, including the value gap between the purchase price and the appraised value, to pay for the seller's closing costs, or to pay off debts or buyer's real estate agent commissions.

7.03 Homebuyer Education Required for Downpayment and Closing Cost Loans

Qualified Homebuyer Education is required for at least one of the Borrowers who receives a Deferred Payment Loan, Deferred Payment Loan Plus, or the Monthly Payment Loan. See Section 4.07 for more details.

7.04 Cash Investment Required for Downpayment and Closing Cost Loans

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

7.05 No Assumptions on Downpayment and Closing Cost Loans

Minnesota Housing downpayment and closing cost loans are not assumable.

7.06 Layering parameters for Downpayment and Closing Cost Loans

Homebuyers who meet Start Up Program parameters may be eligible to utilize one of the following Downpayment and Closing Cost loans with their Start Up Program loan. Borrowers may not layer Monthly Payment, Deferred Payment, or Deferred Payment Plus loans.

- Deferred Payment Loan
- Deferred Payment Loan Plus
- Monthly Payment Loan

Additional Downpayment Loan Sources:

- Eligible Borrowers may layer transactions with Non-Minnesota Housing Subordinate Financing (see Section 7.08 for details)
- Eligible Borrowers may layer transactions with downpayment loans funded by the Minnesota Housing Community Homeownership Impact Fund Program.

7.07 Lien Position Downpayment and Closing Cost Loans

- Monthly Payment Loan must occupy a second mortgage lien position when combined with a non-Minnesota Housing Subordinate Financing.
- Deferred Payment Loan/Deferred Payment Loan Plus must be placed in second lien position, except when the Borrower is using a non-Minnesota Housing downpayment assistance loan that requires second lien position.

7.08 Non-Minnesota Housing Subordinate Financing

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

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

7.09 Cash to the Borrower at Closing of Downpayment and Closing Cost Loans

The Borrower(s) may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower(s) at closing is a refund of dollars Paid Outside of Closing (POC) by the Borrower and is reflected on the Closing Disclosure
- The cash to the Borrower(s) at closing does not compromise the Borrower minimum cash investment requirement
- The underlying first mortgage product and the insurer/guarantor allow the refund

7.10 Deferred Payment Loan Program

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

- Deferred Payment Loan; or
- Deferred Payment Loan Plus

Terms and conditions of the Deferred Payment Loan and the Deferred Payment Loan Plus include the following:

- Are available only in conjunction with a first mortgage loan purchased by U.S. Bank – HFA Division under the Start Up Program
- May be combined only with a Start Up Program loan
- Must be paid in full when, among other things referenced in the loan note:
    - The maturity date of the Deferred Payment Loan is reached
    - The property ceases to be Owner-Occupied. To be considered Owner Occupied at least one Borrower must occupy the Property within 60 Days of signing the security instrument and continue to live in the home for the majority of the year during every year of the loan term. Non-occupancy is allowed for situations of verified military deployment
    - The property is sold or transferred
    - The first mortgage loan is paid in full, including upon a refinance (see section 7.20 Subordination Policy for subordination information); or
- The first mortgage loan is in default or is declared to be due and payable in full.

The Deferred Payment Loan:

- Is available in whole dollar amounts up to $14,000

The Deferred Payment Loan Plus:

- Is available in whole dollar amounts up to $18,000

7.11 Deferred Payment Loan Program Borrower Eligibility

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

- The Borrower's front-end housing ratio must be 25% or higher as calculated with all housing costs, including DPA loans. The calculation may be done at time of origination and the qualifying income amount is used.
- Lenders must document their good faith effort to identify the total housing costs in determining the front-end housing ratio and it is recommended that Lenders utilize the Deferred Payment Loan (DPL) Plus Eligibility Worksheet to document their front-end housing ratio calculations.
- Minnesota Housing realizes an estimated front-end housing ratio may change in underwriting. If the final front-end housing ratio is less than 25%, the Lender must submit the calculation and explanation to Minnesota Housing for a second level review. If approved by Minnesota Housing, the Lender must document Minnesota Housing's approval to the file.

If using the Deferred Payment Loan Plus option, eligible Borrowers must meet the Asset Limit in this section, Borrower Eligibility requirements in Chapter 4, and demonstrate at least one of the following targeting criteria from the DPL and DPL Plus Eligibility Worksheet:

- At least one Borrower must meet the criteria of a First-Generation Homebuyer as defined in section 7.17, and that Borrower must sign the First-Generation Homebuyer Affidavit attesting to their First-Generation Homebuyer status.
- A household of four or more people
- A household member who is a person with a disability
- Sole Head of Household with at least one Eligible Dependent residing in the household (Limitation: The household must include only one adult that is not an Eligible Dependent.)
    - An Eligible Dependent is:
        - A minor household member (under 18 years of age on the closing date);
        - A household member who is a person with a disability; or
        - A senior (age 62 or older on the closing date).

Asset Limit. The total of all Borrowers' liquid assets at the completion of closing are limited to $13,000. Borrowers may spend down excess liquid assets to meet the post-closing liquid asset limit, provided the following requirements are met:

- Funds must be used to pay down a borrower's own existing debt(s).
- Payment transaction(s) must be completed prior to or at loan closing.
- Documentation of the debt(s) and the payment transaction(s) must be in the loan file.

The asset limit must be met unless the underlying loan program guidelines require greater reserves.

7.12 Deferred Payment Loan Program Lender Warranties

In addition to the warranties stated in Section 2.08, the Lender warrants the following:

- The Borrower's cash investment is paid from the Borrower's own assets (not debt or others' funds)
- The Borrower's liquid asset reserves at the completion of closing are not more than $13,000 unless the underlying loan program guidelines require greater reserves.
- The Deferred Payment Loan Program and Deferred Payment Loan Plus funds are applied to the transaction and verified through the Closing Disclosure
- For DPL Plus Borrowers using the First-Generation Homebuyer targeting criteria, a Borrower meets the definition of and has attested to being a First-Generation Homebuyer.

7.13 Monthly Payment Loan Program Requirements

The Monthly Payment Loan provides funds for downpayment and eligible expenses, including customary buyer closing costs, prepaid expenses for taxes and insurance (homeowners, flood and mortgage insurance) and association fees as applicable. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan.
- Are available in whole dollar amounts up to $14,000
- Must have an interest rate equal to that of the first mortgage
- Must be fully amortizing and are payable in level monthly payments over a 15-year term
- Must have a monthly payment due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must not include any type of prepayment penalty
- Must be paid in full when, among other requirements referenced in the loan note, the following occur:
    - The property ceases to be Owner-Occupied
    - The property is sold or transferred
    - The first mortgage loan is paid in full, including upon a refinance (see section 7.20 Subordination Policy for subordination information); or
    - The first mortgage loan is in default or is declared to be due and payable in full
- May not be assumed

7.14 Monthly Payment Loan Borrower Eligibility

The Borrower(s) must satisfy all Start Up Program eligibility requirements. The following requirements for the Monthly Payment Loan must be met:

Income Limits. Borrowers eligible for the Start Up Program may access the Monthly Payment Loan. Monthly Payment Loans to Start Up Program Borrowers have no separate income limit.

Asset Limit. Monthly Payment Loans have no asset limit.

7.15 Monthly Payment Loan Lender Warranties

In addition to the warranties stated in Section 2.08, the Lender warrants the following:

- The Borrower cash investment is paid from Borrower's own assets (not debt or others' funds)
- The funds are applied to the transaction and verified through the Closing Disclosure

7.16 First-Generation Homebuyer Criteria

At least one Borrower has either never owned their Primary Residence or previously owned their Primary Residence but lost ownership of the home due to a foreclosure. That same Borrower and their Parents (see definition of "Parent" in Appendix A) or prior Legal Guardians (see definition of "Legal Guardian" in Appendix A) must have either never owned their Primary Residence or previously owned their Primary Residence but lost ownership of the home due to foreclosure.

For the purpose of determining First-Generation Homebuyer status:

- Ownership means owning residential real estate as your Primary Residence (in any country).
- Ownership is determined by a person being on the title and/or having a marital interest in real property pursuant to the law of the state or country where that property is located. (See Section 4.05 "Types of interest that constitute ownership interest")
- Ownership does not include an ownership interest in a manufactured home which is not permanently affixed to real estate.
- To be eligible as a result of losing a home through foreclosure, that same Borrower and their Parents or prior Legal Guardians must have gone through a formal foreclosure, which is a legal process that allows lenders to recover the amount owned on a defaulted home loan by taking ownership of the mortgaged property. Other circumstances such as short sale, deed in lieu, disaster, tax forfeiture or fleeing from war, do not qualify as a foreclosure under this definition.

The Borrower who meets the criteria of a First-Generation Homebuyer must sign the First-Generation Homebuyer Affidavit attesting to their First-Generation Homebuyer status.

7.17 Housing Choice Voucher (HCV) Homeownership Program

The HCV Homeownership Program allows HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses. Lenders originating HCV Homeownership loans must:

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

7.18 Second Mortgage Application and Loan Disclosure Procedures

The Lender must follow mortgage industry standard requirements for second mortgages when originating loans under the Deferred Payment Loan, Deferred Payment Loan Plus, and the Monthly Payment Loan programs. See the Downpayment Loan Disclosure Information for guidance on disclosing downpayment assistance loans.

The Lender should consult with its compliance department or legal counsel for additional information and guidance in completing required disclosures. The Lender should be aware of the following:

- The Deferred Payment Loan and Deferred Payment Loan Plus are structured to require a balloon payment in accordance with the terms of the Minnesota Housing Finance Agency Deferred Payment Loan note.

7.19 Subordination

Minnesota Housing permits the subordination or replacement of the following down payment and closing cost loans only in cases where the Minnesota Housing First Mortgage Loan is refinanced to a Step Up Program loan:

- Homeownership Assistance Fund (HAF) Loan
- Deferred Payment Loan (DPL)
- Deferred Payment Loan Plus (DPL+)
- Monthly Payment Loan (MPL)

For mortgages with the First-Generation Homebuyer Loans: Borrowers may not have more than one Minnesota Housing First Mortgage, one HAF/DPL/DPL+/MPL loan and one First-Generation Homebuyer Loan open at a time. Review the Minnesota Housing subordination requirements and details in the Subordination Options Guide.

Chapter 8 – Minnesota Housing Loan Commitments

See Minnesota Housing's website for:

- The Lock, Fee, and SRP Guide
- The Loan Commitment System Page

Chapter 9 – Document Requirements

9.01 Loan Processing and Closing

All loans submitted must meet the following requirements:

- Loans must be closed and disbursed before completing the True and Certify process in the Minnesota Housing loan commitment system.
- The Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan. All loan documents other than Minnesota Housing forms must be industry standard and meet the requirements of U.S. Bank – HFA Division, the underlying loan product, and the insurer/guarantor, as applicable. (See the Minnesota Housing website for more details on required forms.)
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and required stages of the loan. Lender is responsible for updating the Minnesota Housing Commitment System with any changes.
- For loans underwritten utilizing industry standard automated underwriting systems, Minnesota Housing requires full documentation when verifying income and assets to confirm Minnesota Housing eligibility.
- **Minnesota Housing forms may not be altered in any way**. Industry standard forms may not be altered in any way other than to add a company name and logo.
- Both the first mortgage loan, and if applicable, the second mortgage loan must be originated, closed or assigned under the name of the lender that is a party to the Minnesota Housing Participation Agreement and who locked the loan(s) in the Minnesota Housing loan commitment system.
- All first mortgage assignments must run directly from the Lender to U.S. Bank – HFA Division.
- All second mortgage assignments must run directly from the Lender to the Minnesota Housing Finance Agency.
- The Lender must submit final documents to U.S. Bank – HFA Division within 120 days of U.S. Bank – HFA Division's loan purchase.
- Product specific requirements must be met for Conventional HFA product requirements – refer to the Fannie Mae HFA Preferred™ Product Description and Freddie Mac HFA Advantage product descriptions on Minnesota Housing's website.

9.02 Minnesota Housing Documentation/Delivery Requirements

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

- The Lender has reviewed any and all contracts in connection with the residence sale transaction to ensure total compliance with this Procedural Manual
- The Lender has obtained and reviewed applicable documentation to determine compliance with the Start Up Loan Program Affidavit, Subsidy Recapture Statement and Tennessen Warning and the Notice to Buyers (FHA/VA and Conventional/RD) as it pertains to the mortgage revenue bond First-Time Homebuyer requirements and other program requirements. The following documents must be signed by the applicable parties at closing or as close to closing as reasonably practicable;
    - The Start Up Loan Program Affidavit
        - The form must be executed by all Borrower(s) with an interest in the Property, including the following, as applicable:
            - If the Borrower is married, the occupying non-purchasing spouse of Borrower
            - An occupying Co-Signer
            - Any other occupant of the Property who will be on title.
- The Subsidy Recapture Statement and Tennessen Warning
- The Notice to Buyers (FHA/VA and Conventional/RD)

Consequence for Non-Compliance

Documentation not delivered to U.S. Bank – HFA Division within the specified timeframes may result in the Lender repurchasing the loan, or any other remedy as identified in this Procedural Manual, at Minnesota Housing's or U.S. Bank – HFA Division's discretion. Minnesota Housing or U.S. Bank – HFA Division may also, at their discretion, extend the aforementioned timeframes identified in the Delivery Checklist.

9.03 Signature Requirements

Minnesota Housing accepts documents that are signed electronically, except the Monthly Payment Loan note and mortgage and the Deferred Payment Loan (DPL/DPL+) note and mortgage. Under no circumstances may a Borrower or Co-Signer be required to sign a document electronically. The following criteria must be met:

- Must follow Minnesota Housing Electronic Signature policy (see Legal Addendum Electronic Signatures)
- Must follow all counterparty requirements (i.e., US Bank, GSE, FHA, VA/RD)

- Note: Questions about Remote Online Notary (RON) can be directed to U.S. Bank - HFA Division

9.04 Records Retention

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

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

Chapter 10 – Servicing

10.01 Servicing

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

10.02 Lender Servicing Responsibilities

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to U.S. Bank – HFA Division purchase, the Lender must perform all required servicing functions for the loan until it is transferred to U.S. Bank Servicing. This includes collecting and applying all loan payments for the Start Up Program loan, the Monthly Payment Loan, and the Deferred Payment Loans, if applicable, made by the Borrower(s) in accordance with State and Federal Servicing regulations. Loan payments collected must include the following:

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

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

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

The Lender must also provide to the Borrower as applicable, any

- Required tax reporting
- Required servicing notices
- Servicing Transfer disclosure notices

The Lender must retain all statements, documents, and correspondence related to servicing the loan in the loan file that is transferred to U.S. Bank Servicing.

10.03 Assumption/Due-On-Sale

A Minnesota Housing first mortgage loan financed with either a Conventional loan or Rural Development loan product is due upon sale and may not be assumed. (See section 7.05 No Assumptions on Downpayment and Closing Cost Loans)

A Minnesota Housing first mortgage loan financed with either a Federal Housing Administration (FHA) or Veterans Administration (VA) loan product may be assumed only by persons who:

- At the time of the assumption, intends to occupy the property as their Principal Residence within 60 days of closing
- Has not had an ownership interest in a Principal Residence (other than the property purchased with the proceeds of the loan) during the three-year period preceding the day the Borrower(s) executed the loan application
- Does not have an annualized gross household income that exceeds the current Minnesota Housing Start Up Program income limits; and
- Is not purchasing or acquiring the residence at an Acquisition Cost that exceeds the current Minnesota Housing Start Up Acquisition Cost Limits.

All assumption requests must be reviewed and approved by U.S. Bank Servicing Department and Minnesota Housing prior to the execution of any assumption documents.

Unless the loan assumption is approved in accordance with the above provisions for allowable assumptions, the loan is due upon sale or transfer of title.

10.04 Hardship Policy

Minnesota Housing has in place a hardship policy for its Monthly Payment Loan, and the Deferred Payment Loan. The hardship policy may allow forgiveness either in part or whole if a Borrower is experiencing a financial hardship(s) which prevents them from having the financial ability to pay back the full indebtedness. Hardship will be evaluated at the time of the instance and upon request of the Borrower. A determination will be made in accordance with the servicing policies in affect at that time.

Appendix A – Definitions

Table 4/Definitions

Term	Definition
Acquisition Cost	The cost of acquiring a completed residential unit (see Section 5.04).
Annualized Gross Income	Gross monthly income multiplied by 12.
Borrower	A person who receives funds in the form of a loan secured by real property with the obligation of repaying the loan and, in addition, any person purchasing the real property securing the loan, executing the promissory note, executing a guarantee of the debt evidenced by the promissory note, or signing a security instrument in connection with a loan.
Co-Signer	A party that is obligated to repay the loan. A Co-Signer assumes only personal liability and has no ownership interest in the property.
First- Generation Homebuyer	A Borrower who meets the requirements as stated in Section 7.17 of this Procedural Manual.
First-Time Homebuyer	A First-Time Homebuyer is a Borrower(s) who has not had an ownership interest in their principal residence in the three years preceding execution of the mortgage documents (loan closing). The First-Time Homebuyer must meet the requirements as stated in Section 4.04 of this Procedural Manual.
Household Member who is a person with a Disability	A Borrower or household member who has a permanent physical or mental condition, which substantially reduces the person's ability to function in a residential setting.
Legal Guardian	A Legal Guardian is a person appointed by a court to care for and take permanent responsibility for a minor child.
Master Servicer	A company selected by Minnesota Housing to purchase, securitize and service mortgage loans originated pursuant to Minnesota Housing's mortgage loan programs.

Term	Definition
New Construction or Newly Constructed Residence	New Construction or a Newly Constructed Residence refers to a residence, which either has never been occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e. a contract-for-deed, mortgage, or bridge loan).
Owner Occupied	At least one Borrower must occupy the Property within 60 Days of signing the security instrument and continue to live in the home for the majority of the year during every year of the loan term. Non-occupancy is allowed for situations of verified military deployment.
Parent	For the purposes of this definition, a Parent is a lawful father, mother, or non-binary term for a parent established either through birth or court order showing custody or responsibility. Parent includes a biological Parent, adoptive Parent, or a person that the State has determined to be a Parent. A person who had their parental rights to a child modified through a state, district, or Tribal court proceeding, such as a voluntary or involuntary termination or suspension of parental rights, is still considered a Parent for purposes of this definition. For the purposes of this definition, a Parent does not include standby custodians, temporary guardians, grandparents, siblings, or stepparents who act as caregivers to a child without a permanent legal responsibility to the child.
Participation Agreement	The Participation Agreement for Minnesota Housing Single Family Programs executed between the Lender and Minnesota Housing that allows the Lender to participate and offer Minnesota Housing's Start Up and Step Up mortgage loan programs.
Personal Property	Property such as an appliance, a piece of furniture, a radio etc., which under applicable law is not a fixture.
Primary Residence / Principal Residence	A dwelling the Borrower and their household occupy as their permanent residence. A person may have only one Primary Residence at any one time. Residences used as second homes or temporary residences do not qualify as Primary Residences.

Term	Definition
Program Eligibility Income	See Section 4.09. Any of several different types of earned or unearned income claimed by the Borrower (see Program Eligibility Income Worksheet for guidance). Types of income include, but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
Property Seller	The seller of the property under contract for sale to the Borrower who is using Minnesota Housing financing.
Qualified Homebuyer Education	Homebuyer education is a course or program that teaches prospective buyers about the entire home-buying process, from financial readiness (budgeting, credit) and mortgage basics to searching for a home, closing costs, and the ongoing responsibilities of homeownership, often required for assistance programs or specific loans to ensure successful, sustainable ownership. See Section 4.07 of this Procedural Manual.

Sole head of household with at least one Eligible Dependent	• Sole head of household with at least one Eligible Dependent residing in the household.
	• An Eligible Dependents is:
	  ○ A minor household member (under 18 years of age on the closing date);
	  ○ A Household Member with a Disability or
	  ○ A senior (age 62 or older on the closing date).
	  ○ Limitation: The household must include only one adult that is not an Eligible Dependent.

Temporary Financing	Initial financing such as a construction loan, bridge loan, and contract for deed with a term of 24 months or less.
True and Certify	The loan-level process in Minnesota Housing's loan commitment system completed by the Lender that certifies all the information entered into the system is true and accurate.

Appendix B – Forms List

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

Appendix C – Legal Addendum

C.01 Conflict and Control

In the event of any conflict between the terms of this Addendum and the document to which it is attached, the terms of this Addendum will govern and control.

C.02 Fraud

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

Any person or entity (including its employees and affiliates) that enters into a contract 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 C.07 of this Addendum.

C.03 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 C.07 of this Addendum.

C.04 Conflict of Interest

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

- **Actual Conflict of Interest**: An Actual Conflict of Interest occurs when a person's decision or action would compromise a duty to a party without taking immediate appropriate action to eliminate the conflict.
- **Potential Conflict of Interest**: A Potential Conflict of Interest may exist if a person has a relationship, affiliation or other interest that could create an inappropriate influence if the person is called on to make a decision or recommendation that would affect one or more of those relationships, affiliations or interests.
- **Appearance of a Conflict of Interest**: The Appearance of a Conflict of Interest means any situation that would cause a reasonable person, with knowledge of the relevant facts, to question whether another person's personal interest, affiliation or relationship inappropriately influenced that person's action, even though there may be no Actual Conflict of Interest.

A conflict of interest includes 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 Partner, Family Member, Relative, Friend, Business or other Outside Interest with which they are involved. Such terms are defined below.

- **Business**: Any company, corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual or any other legal entity which engages either in nonprofit or profit-making activities.
- **Family Member**: A person's current and former spouse; children, parents, and siblings; current and former children-in-law, parents-in-law, and siblings-in-law; current and former stepchildren and stepparents; grandchildren and grandparents; and members of the person's household.
- **Friend**: A person with whom the individual has an ongoing personal social relationship. "Friend" does not generally include a person with whom the relationship is primarily professional or primarily based on the person being a current or former colleague. "Friend" does not include mere acquaintances (that is interactions are coincidental or relatively superficial). Social media friendships, connections, or links, by themselves, do not constitute friendship.
- **Outside Interest**: An Outside Interest may occur when an individual, their Family Member or their Partner has a connection to an organization via employment (current or prospective), has a financial interest or is an active participant.
- **Partner**: A person's romantic and domestic partners and outside Business partners.
- **Relative**: Uncle or aunt; first or second cousin; godparent; godchild; other person related by blood, marriage or legal action with whom the individual has a close personal relationship.

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 a contract with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all conflicts of interest through one of the communication channels described in section C.07 of this Addendum.

C.05 Assistance to Employees and Affiliated Parties

Any party entering into a contract with Minnesota Housing for the purpose of receiving an award or benefit in the form of a loan, grant, combination of loan and grant or other funding is restricted in issuing a loan, grant, combination of loan and grant or other funding to a recipient ("Affiliated Assistance") who is also: (1) a director, officer, agent, consultant, employee or Family Member of an employee of the contracting party; (2) an elected or appointed official of the State of Minnesota; or (3) an employee of Minnesota Housing, unless each of the following provisions are met:

- The recipient meets all eligibility criteria for the program;
- The assistance does not result in a violation of the contracting party's internal conflict of interest policy, if applicable;
- The assistance does not result in a conflict of interest as outlined in section C.04;
- The assistance is awarded utilizing the same costs, terms and conditions as compared to a similarly situated unaffiliated recipient and the recipient receives no special consideration or access as compared to a similarly situated unaffiliated recipient; and
- The assistance is processed, underwritten and/or approved by staff/managers who are independent of the recipient and independent of any Family Member of the recipient. Family Member is defined in section C.04 of this Addendum.

A contracting party need not disclose Affiliated Assistance to Minnesota Housing. However, the contracting party must document and certify, prior to the award, that the Affiliated Assistance meets each of the provisions outlined above. This documentation must be included in the Affiliated Assistance file and must be made available to Minnesota Housing upon request. Affiliated Assistance that does not meet each of the provisions outlined above will be considered a violation of Minnesota Housing conflict of interest standards and must be reported by the contracting party through one of the communication channels outlined in section C.07 of this Addendum.

C.06 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 website for a list of suspended individuals and organizations (Go to mnhousing.gov, scroll to the bottom of the screen and select Report Wrongdoing, then select Suspensions from the menu).

C.07 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 (for example 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.

- Minnesota Housing's Risk Officer and Controls Director at 651.296.7608 or 800.657.3769 or by email at MHFA.ReportWrongdoing@state.mn.us;
- Any member Minnesota Housing's Servant Leadership Team, as denoted on Minnesota Housing's current organizational chart (Go to mnhousing.gov, scroll to the bottom of the screen and select About Us, select Servant Leadership Team); or
- Report Wrongdoing or Concerns (go to mnhousing.gov, scroll to the bottom of the screen and select Report Wrongdoing).

C.08 Electronic Signatures

Minnesota Housing will use and accept e-signatures on eligible program documents subject to all requirements set forth by state and federal law and consistent with Minnesota Housing policies and procedures. The use of e-signatures for eligible program documents is voluntary. Questions regarding which documents Minnesota Housing permits to be e-signed should be directed to Minnesota Housing staff.

C.09 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 those in the business of buying and selling dwellings to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

C.10 Minnesota Government Data Practices

Minnesota Housing, and any party entering into a contract with Minnesota Housing, must comply with the Minnesota Government Data Practices Act, Minnesota Statutes Chapter 13, as it applies to all data provided by Minnesota Housing under the contract, and as it applies to all data created, collected, received, stored, used, maintained or disseminated by the contracting party under the contract. The civil remedies of Minnesota Statutes Section 13.08 apply to the release of the data referred to in this section by either the contracting party or Minnesota Housing. If the contracting party receives a request to release the data referred to in this section, the contracting party must notify Minnesota Housing. Minnesota Housing will give the contracting party instructions concerning the release of the data to the requesting party before the data is released. The contracting party's response to the request shall comply with applicable law.