



# **Community Homeownership Impact Fund Program Procedural Manual**

*May 29, 2015*

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## **Introduction**

### **Mission Statement**

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

### **Background**

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

Minnesota Housing offers funding through an annual Single Family Request for Proposal (RFP) to assist communities/neighborhoods in addressing local housing concerns by leveraging resources to maintain and/or develop ownership housing affordable to the local workforce.

### **Community Homeownership Impact Fund Program**

The Community Homeownership Impact Fund Program (Impact Fund), formerly known as the Community Revitalization Program (CRV), is the umbrella name for a variety of limited funding resources offered in the Single Family RFP, including the Economic Development and Housing Challenge Fund (Challenge) and other Minnesota Housing resources which vary each year.

The Impact Fund allows for a variety of housing activities including: acquisition, rehabilitation and resale, demolition/rebuilding and new construction, Affordability Gap and Value Gap. In some cases, funds for Owner-Occupied rehabilitation and downpayment assistance may be provided if the articulated community need for the funds cannot be served by other Agency programs or other available programs and resources.

### **Procedural Manual**

This Procedural Manual sets forth for Administrators the terms and conditions under which Minnesota Housing will award Impact Fund Dollars to Administrators.

## **Chapter 1 – Partner Responsibilities/Warranties**

(See Appendix C, Section A for Chapter 1 Documentation Requirements.)

### **1.01 Procedural Manual**

This Procedural Manual, including subsequent changes and additions, is a supplement to the Fund Availability, Disbursement and Loan/Grant Agreement (hereinafter referred to as the “Agreement”) executed between the Administrator, Processing Entity (if applicable) and Minnesota Housing. It is incorporated into the Agreement by reference and is a part thereof as fully as if set forth therein at length.

Minnesota Housing reserves the right to:

- Alter or waive any of the requirements herein;
- Impose other and additional requirements; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

Minnesota Housing grants waivers, alterations or revisions at its sole discretion. Administrators may request, in writing to Minnesota Housing, waivers, alterations or revisions to this Procedural Manual.

### **1.02 The Agreement**

If an Administrator submits their Impact Fund Application for Funds to Minnesota Housing and is selected to receive Impact Fund Dollars, Minnesota Housing will execute the Agreement outlining the legal relationship and responsibilities of the Administrator to Minnesota Housing.

The Agreement is labeled with an Impact Fund Agreement ID Number, which is the unique identifier for the Agreement. The Administrator must use this Impact Fund Agreement ID Number on all forms and correspondence to Minnesota Housing.

### **1.03 Evidence of Misconduct Referred to Attorney General**

Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of the Impact Fund Program to the Minnesota Attorney General’s office for appropriate legal action.

Minnesota Housing may exercise all remedies available to it, both legal and equitable, to recover funds from the Administrator and/or the Household. This includes Impact Fund Dollars, together with all applicable administrative costs and other fees or commissions received by the Administrator in connection with the Impact Fund Dollars and for all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the Impact Fund Dollars or recovery thereof.

#### **1.04 Compliance with Privacy Statutes**

The Minnesota Government Data Practices Act:

- Requires the Administrator to supply Borrowers and Households receiving Grant funds with the Tennessen Warning and the Privacy Act Notice when requesting private data<sup>1</sup>;
- Governs when the disclosure of the Borrower's social security number is required;
- Provides that when a Household receives a deferred or amortized loan, only the Borrower's name, address and amount of assistance received are public data and may be released;
- Further provides that all data regarding a Household that receives or benefits from a Grant, except the amount of assistance, are private data on individuals and may not be released without the Household's permission; and
- Provides that with both Grant and loan assistance, all other data created by or collected from the Household, including financial information such as credit reports, financial statements and net worth calculations, are classified as private data on individuals under Minnesota Statutes §462A.065 and §13.462 subdivision 3.

#### **1.05 Unauthorized Compensation**

The Administrator may receive fees approved in this Procedural Manual. However, the Administrator shall not receive or demand from the builder, remodeler, contractor, supplier, or Borrower:

- Kickbacks;
- Commissions;
- Rebates; or
- Other compensation.

In order to reduce the total development cost associated with an eligible property, an Administrator may receive discounts from the seller, builder, remodeler, contractor, or supplier. In these cases, the Administrator file must be documented to prove that the discounts received are considered normal for the market area and do not constitute a kickback, commission, rebate or compensation for products or services rendered. Any discounts that exceed the norm must be documented as a charitable contribution by the representative of the seller, builder, remodeler, contractor or supplier providing the discount.

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<sup>1</sup> Administrators who are Governmental Entities shall use the form approved by their "Responsible Authority", as defined in Minnesota Government Data Practices Act § 13.02, Subd. 16. Other Administrators shall provide a Tennessen Warning and Privacy Act Notice and may use the applicable, fillable Tennessen Warning and Privacy Act Notice located on the Impact Fund Forms page of Minnesota Housing's website.



## **1.06 Audit and Monitoring Guidelines and Requirements**

The Administrator is required to keep on file a complete copy of all documents for each activity completed.

With reasonable notice to the Administrator and/or the Household, Minnesota Housing reserves the right to make site visits or conduct an audit related to all Project files utilizing any Impact Fund Dollars.

Project files, including Administrator, Household and Construction/Property files may be requested to be made available in order to conduct:

### **Monitoring**

Project files may be requested to be made available to Minnesota Housing at the Administrator's office during regular business hours. Monitoring visits will include:

- Physical inspection of eligible properties; and
- Verification of accounting and Project files including eligibility requirements and documentation requirements (see Appendix C).

### **Audits**

Project files may be requested to be forwarded to Minnesota Housing for review. Audited files are reviewed for:

- Minnesota Housing program/policy compliance;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the program in part or in whole.

For documentation requirements, see Appendix C.

## **1.07 Term of Funds Availability**

Minnesota Housing reserves the right to cancel the Agreement if it is not executed and returned to Minnesota Housing within 60 days of receipt.

Impact Fund Dollars will be available to the Administrator for a period of 20 months unless otherwise stated by Minnesota Housing in the Agreement.

Any Impact Fund Dollars not used by the Administrator during that 20-month period shall be repaid to Minnesota Housing in accordance with the terms and conditions outlined in the Agreement. Minnesota Housing, at its sole discretion, may extend the period Impact Fund Dollars are available to the Administrator.

### **1.08 Termination of Administrator Participation**

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

- This Procedural Manual;
- The Agreement;
- The procedural manual and agreements of other Minnesota Housing programs;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Homebuyer's rights with regard to obtaining homeownership;
- The Application for Funds; and
- Other applicable state and federal laws, rules and regulations.

Minnesota Housing may, at its option, impose remedies other than termination of the Agreement for Administrator nonperformance.

Administrator may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate an Administrator shall be at Minnesota Housing's sole discretion.

### **1.09 Representations and Warranties**

The Administrator agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following:

- Title 24, Code of Federal Regulations, Part 35, Subpart A;
- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act and any applicable regulations and orders thereunder;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Law (Title VIII);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Minnesota Statutes Section 462A.05 Subdivision 2;

- Minnesota Statutes Section 462A.33;
- Minnesota Rules 4900.3600-3652;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Minnesota Secure and Fair Enforcement for Mortgage Licensing Act (S.A.F.E. Act) of 2010;
- Minnesota Statutes §58A.03;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth in Lending Act;
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement Procedures Act of 1974, as amended.

In addition to the above warranties and representations, Administrator also warrants and represents that:

- It is either a city; a joint powers board established by two or more cities; a federally recognized American Indian tribe or subdivision located in Minnesota, a tribal housing corporation, a Private Developer, a nonprofit organization, a public housing agency or a natural person who is the owner of the eligible housing;
- It will fully comply with all terms and conditions in the Agreement, the Single Family RFP, the Application for Funds and this Procedural Manual for each eligible activity undertaken unless prior written approval is obtained from Minnesota Housing;
- It will comply with the Minnesota Housing Lead Based Paint Guidebook if the activity includes the identification and correction of health and safety hazards;
- It will comply with standard underwriting requirements of the secondary market and prudent lenders that originate Deferred Loans for similar Projects;
- It will use Impact Fund Dollars for an eligibility activity or eligible activities;
- It will use Impact Fund Dollars in accordance with the eligible activity or eligible activities outlined in the Administrator's Impact Fund Application for Funds;

- It will close the Deferred Loan in accordance with the Agreement and this Procedural Manual;
- It will control the disbursement of Deferred Loan, Interim Loan and Grant proceeds in accordance with the terms of the Agreement and this Procedural Manual;
- It will monitor the construction or rehabilitation of the Qualified Dwelling Unit in accordance with the terms of the Agreement and this Procedural Manual;
- It will obtain and review all applicable documentation to determine and record compliance with all Minnesota Housing requirements;
- It will maintain adequate capital and trained personnel for the administration of the Impact Fund Dollars;
- It will not assign any agreements executed with Minnesota Housing without prior written approval from Minnesota Housing;
- It will represent in the Application for Funds, the specific organization with which it intends to sign the Agreement with Minnesota Housing and to which Impact Fund Dollars will be disbursed;
- The Project owner has good and marketable fee simple title to or a long-term “mortgageable” lease for the real estate;
- If the Project is subject to a mortgage, lien or other encumbrance, it is a mortgage, lien or other encumbrance acceptable to prudent lenders that make loans and/or Grants for similar Projects; and
- It is an entity duly formed or incorporated under the laws of the State of Minnesota.

### **1.10 Processing Entity**

- When the Administrator’s capacity or federal/state laws or acts prevent the Administrator from directly originating Impact Fund Program loans, a Processing Entity may be approved by Minnesota Housing at the time of Administrator’s Impact Fund Application for Funds.
- The Processing Entity must enter into a contractual relationship with the Administrator. Minnesota Housing, however, will hold the Administrator solely responsible for any default under the Fund Availability, Disbursement and Loan/Grant Agreement.

### **1.11 Affirmative Marketing**

The Administrator must take necessary steps to affirmatively market to Underserved Populations.

## **Chapter 2 – Household Eligibility Requirements**

(See Appendix C, Section B for Chapter 2 Documentation Requirements.)

### **2.01 Households**

One individual or multiple individuals are eligible to be a Homebuyer or Homeowner only if such individual or individuals meet the requirements of this Procedural Manual. Households receiving Impact Fund Dollars must be Owner-Occupants.

A Homebuyer is a type of Household eligible to benefit from the use of Impact Fund Dollars in the new construction or acquisition and/or rehabilitation of a Qualified Dwelling Unit or for Affordability Gap financing to purchase a Qualified Dwelling Unit.

A Homeowner is a type of Household eligible to use Impact Fund Dollars for the rehabilitation of a Qualified Dwelling Unit in which there is an ownership interest by the Household.

In addition to above-noted requirements, Households served by an Indian Housing Set-Aside must be considered an American Indian Household. Verification of tribal affiliation or membership is required.

### **2.02 Household Selection**

The Administrator must establish and maintain a Household selection process, which ensures that Households meet Impact Fund requirements.

### **2.03 Household Affordability Gap Eligibility**

The Administrator's Household selection process must include an assessment of the Households' needs for Affordability Gap assistance indicated by the housing-to-income ratio. Generally, a Household eligible for Affordability Gap assistance must spend no less than 25% of gross monthly income for housing payments. Housing payments include monthly principal and interest on the first mortgage and any subordinate mortgage, any Home Owners Association (HOA) fees, property taxes, hazard insurance and mortgage insurance.

To serve certain Low Income Households at a lower housing ratio than 25%, an Administrator must establish an Affordability Gap eligibility policy that specifies a lower minimum housing ratio given programmatic goals to promote sustainable homeownership. The lowest minimum housing ratio permitted by Minnesota Housing for Affordability Gap eligibility is 20%.

Minnesota Housing may, at its sole discretion, waive the ratio requirement for Affordability Gap financing on a case by case basis, when the Administrator provides a written waiver request.

## **2.04 Homebuyer Age**

Homebuyer(s) must be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction.

## **2.05 Unauthorized Compensation**

Households shall not receive kickbacks, rebates, discounts, and/or compensation from any party in the transaction.

## **2.06 Principal Residence/Occupancy Requirements**

Each Household that receives Impact Fund Dollars must occupy the eligible housing as their Principal Residence.

## **2.07 Impact Fund Eligibility Income**

The Administrator may establish income limits for each eligible activity they undertake with Impact Fund Dollars. These limits may not exceed 115% of state or area median income (AMI). The Household's Annualized Gross Income may not exceed levels that would qualify them as Low and Moderate Income Households.

The Annualized Gross Income is the earned or unearned income of the parties in the Household as described below from sources outlined in the list below (not including the exceptions that follow).

### **Parties Whose Income Must be Included When Calculating Annualized Gross Income**

The income of the following persons must be verified and included when calculating Annualized Gross Income for Homebuyers of Qualified Dwelling Units constructed or rehabilitated using Impact Fund Dollars or Homebuyers receiving Impact Fund Affordability Gap assistance:

- Anyone who will have title to the subject property and signs the Mortgage Deed.
- Anyone expected to reside in the subject property and who will be obligated to repay the underlying mortgage loans (signs the Note) but who is not in title to the subject property; i.e. the Co-Signer (not named in title to the subject property and does not sign the Mortgage Deed).
- The legal spouse of the mortgagor who will also reside in the subject property.

The income of the following persons must be verified and included when calculating Annualized Gross Income for Homeowners of Qualified Dwelling Units receiving Impact Fund Owner-Occupied rehabilitation assistance:

- Anyone in title to the subject property who also resides in the subject property.
- The legal spouse of the mortgagor who also resides in the subject property.

If the mortgagor is legally married and the spouse does not or is not expected to reside in the subject property, the Household file must contain either the Non-Occupant Spouse Statement or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.

Any person whose income must be included in the Annualized Gross Income calculation who receives no income must sign either the Zero Income Statement or another statement indicating he or she receives no income.

### **Accommodation Parties**

An accommodation party is anyone with an ownership interest in an eligible property that is not a Borrower. Examples include but are not limited to a non-borrowing relative, spouse, or heir in title to an eligible property, or a seller of a contract-for-deed to an Owner-Occupant. An accommodation party must sign the Impact Fund Mortgage.

### **Co-Signers**

Co-signers are permitted on first mortgage loans originated for Homebuyers of Qualified Dwelling Units receiving Impact Fund Dollars. Co-signers are not vested in title and may reside in the subject property.

### **Annualized Gross Income Calculation**

Total Annualized Gross Income includes, but is not limited to:

- Base pay, which includes full-time, part-time or seasonal work with regular hours, expressed hourly, weekly or monthly, etc.;
- Variable income, which includes irregular hourly income, income from commissions, overtime and bonuses, income from irregular employment, shift differential, tips, profit sharing, sick pay, holiday pay and vacation pay;
- Self-Employment or Business Income;
- Income from financial assets, trusts or annuities, including but not limited to, dividends, royalties and interest earned from non-retirement accounts;
- Government Transfer Payments, including retirement benefits, disability benefits, medical benefits, social security benefits, pensions, veterans' benefits, workers' compensation, public assistance, unemployment benefits, federal education and training assistance and income maintenance benefits;
- Insurance or benefit payments, such as long-term care insurance, disability insurance, pensions or death benefits;
- Net rental income from investment property;
- Contract-for-deed interest income;
- Child and/or spousal support payments;

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- Regular cash contributions;
- Employer-paid allowances such as housing, automobile, cell phone, etc.;
- Flexible benefit cash;
- Custodial account income;
- Estate income; and
- Other sources of income not specifically excluded below.

The following types of income are excluded from the Annualized Gross Income calculation:

- Income no longer available;
- One-time (non-recurring) income; for example, income received once that does not have a history and is unlikely to reoccur in the future;
- Income generated by IRA, VIP, 403(b), and 401(k) accounts;
- Food stamps, Meals on Wheels, contributions of food;
- Government-paid child care which is paid directly to the provider;
- Foster care income;
- Educational scholarships, grants, loans or tuition reimbursement;
- Earned Income Tax Credit refund payments;
- Potential roommate income or rental income of future duplex or accessory dwelling unit;
- Court-ordered child or spousal support not received;
- 529 plans;
- Custodian accounts where someone other than the parents are named as custodian;
- Unearned income of adult dependents; and
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements
  - Lottery winnings
  - Gambling winnings
  - Capital gains
  - Liquidation of assets
  - Settlements for personal loss.



## **Chapter 3 – Property Eligibility**

(See Appendix C, Section C for Chapter 3 Documentation Requirements.)

### **3.01 Qualified Dwelling Unit**

A Qualified Dwelling Unit must:

- Be attached or detached, Owner-Occupied housing including manufactured homes;
- Be residential in nature and have a remaining economic life equal to the loan term plus 10 years;
- Be occupied by an eligible Household;
- Be Affordable to the Local Workforce;
- Be able to be completed by the end of the 20-month period during which Impact Fund Dollars are available to the Administrator; and
- Contain no more than four units with at least one unit being occupied by the Household which owns the entire four-unit structure.

### **3.02 Title Examination Requirements**

At the time an Administrator or Homebuyer acquires title to a Qualified Dwelling Unit, the title for that Qualified Dwelling Unit must be established by way of an attorney's legal title opinion or a title insurance policy showing the Administrator or Homebuyer is acquiring clear and marketable title.

In the case of tribal lands, the Administrator must ensure that the proper official of the tribal land office establishes a clear and marketable title as defined by the tribe governing the land on which the Qualified Dwelling Unit is located.

### **3.03 Community Land Trusts**

A Community Land Trust (CLT) must meet the following conditions:

- The CLT must provide evidence, satisfactory to Minnesota Housing, that Homebuyers purchasing Qualified Dwelling Units in the CLT receive full disclosure of their rights and obligations under the trust, including future limitations on sale;
- The CLT must submit evidence, satisfactory to Minnesota Housing, that land trust Homebuyers have access to the secondary mortgage market; and
- The terms and conditions of the CLT must be compatible with those developed by the National CLT Network and otherwise satisfactory to Minnesota Housing.

### **3.04 Reasonable Cost Estimates for Improvements**

The Administrator must determine and document that all costs as represented in the Scope of Work are reasonable and cost effective. To that end, the Administrator must include any of the following documents in the file:

- Bids and/or estimates for improvements from a licensed contractor(s);
- A cost study, performed by a disinterested third party showing the cost of improvements conforms to other projects in the area; or
- Other documentation that has been approved by Minnesota Housing.

### **3.05 Building Code Compliance**

All eligible activities must be in compliance with all applicable state, county and municipal health, housing, building, fire prevention, and housing maintenance codes and local ordinance or other public standards.

In areas of the State where there is a local building code or the State building code has been adopted, a licensed building official/inspector must provide a building permit, certificate of occupancy, certificate of completion or a final inspection report in order to document that the improvements meet building code.

In areas of the State where there is no local building code or where the State building code has not been adopted, the Administrator must include in its contracts a requirement that improvements are completed in accordance with the State Building Code.

### **Tribal Housing Awards**

When working within tribal reservations and/or on tribal lands, the governing tribal laws and regulations relating to building and zoning shall be used to meet the requirements of this Section.

## Chapter 4 – Eligible Activities

(See Appendix C, Section C for Chapter 4 Documentation Requirements.)

### 4.01 Eligible Activities

Impact Fund Dollars **may** be used for:

- Acquisition of land or existing structures;
- Construction of housing;
- Rehabilitation of housing;
- Conversion to housing from another use;
- Site preparation;
- Demolition or removal of existing structures ;
- Construction financing;
- Construction of development infrastructure directly related to the Qualified Dwelling Unit such as connection to city water and sewer;
- Reduction of interest rates only when used in conjunction with the Minnesota Housing's Community Fix Up Loan Program home improvement or lead hazard reduction;
- Financing to fill a Affordability Gap or Value Gap;
- Innovative approaches to housing construction or rehabilitation; or
- Soft costs as defined in section 5.04.

Eligible activities must end in the maintenance or construction of a Qualified Dwelling Unit.

### 4.02 Ineligible Activities

Impact Fund Dollars **may not** be used for:

- Non-owner occupied housing;
- Community development projects including, but not limited to, parks or community centers;
- The construction of public development infrastructure, including but not limited to, city water, sewer, curbs and gutters that are not directly related to the development or rehabilitation of Qualified Dwelling Units;
- The construction of private infrastructure that does not lie within the land upon which the Qualified Dwelling Unit to be owned solely by the Owner-Occupant is located;
- Administration costs not connected to the development or rehabilitation of Qualified Dwelling Units;

- Individuals who want to refinance their existing loan; and
- Improvements for commercial use.

#### **4.03 New Construction Requirements**

All required program documentation that must be included in the Construction/Property file is listed in Appendix C, Sections C1 and C2. See also Section C4 (if applicable).

Visitability requirements apply for all newly constructed properties financed in whole or in part by Minnesota Housing's state-appropriated Interim Loan dollars. Minnesota Housing may offer 2% Interim Loan dollars under the Single Family RFP from other fund sources which do not require visitable unit construction.

Visitability Elements are:

- One no-step entrance;
- 32-inch opening doorways throughout the Qualified Dwelling Unit not to include closet doors; and
- At least a half bath on the main level that meets minimum clearance criteria.

#### **Green Communities Criteria**

- If Impact Fund Dollars are used to assist new construction Qualified Dwelling Units, the units must comply with the national Green Communities mandatory criteria as modified by the Minnesota Overlay to the National Green Communities Criteria, at the time of application.
- For additional requirements and guidance regarding Green Communities Criteria, please refer to Minnesota Housing's Minnesota Overlay to the National Green Communities Criteria guidebook found on Minnesota Housing's webpage.

#### **4.04 Acquisition-Rehabilitation-Resale**

All required program documentation that must be included in the Construction/Property file is listed in Appendix C, Sections C1 and C2. See also Section C4 (if applicable).

All acquisition-rehabilitation-resale Qualified Dwelling Units assisted with Impact Fund Dollars must meet the following criteria:

- HUD's Housing Quality Standards (HQS);
- The most current version of the National Green Communities criteria as modified by the Minnesota Overlay to the National Green Communities Criteria at the time of application, as follows:

- Projects involving Acquisition with Substantial Rehabilitation must follow all “Mandatory” Green Communities criteria as modified by the Minnesota Overlay except when exempted by Project type (where specifically noted as “New Construction only” or “Moderate Rehab”);
- Projects involving Acquisition with Moderate Rehabilitation have a set of minimum requirements. However, if specific additional improvements are made at the time of rehabilitation (e.g., new finishes, replacement of equipment, systems, building components, or assembly of components), then any applicable mandatory criterion related to the specific building component or system is also required. E.g., Criterion 5.3 will be required if heating or cooling equipment will be replaced as part of the Project; or Criterion 6.1, which requires Low/No VOC<sup>2</sup> paints and primers, will be required if interior painting is part of the Project; and
- Minnesota Housing Lead Based Paint Guidebook requirements must be satisfied if an acquisition-rehabilitation-resale Project includes the identification and correction of lead-paint related health and safety hazards. The requirements in the Minnesota Housing Lead Based Paint Guidebook must be satisfied.

Substantial and Moderate Rehabilitation Project types are specifically defined in the [Minnesota Overlay to the National Green Communities Criteria](#). In addition, the following guidance also applies to these Project types:

A **Substantial Rehabilitation** (or Gut Rehab) Project includes the replacement and/or improvement of all the major systems of the building, including its envelope. All of the following systems must be addressed in the rehabilitation scope of work to be considered Substantial Rehabilitation:

- Building Envelope – including, but not limited to the roof; exterior walls; siding; windows and doors; and repairs to the building’s foundation;
- Plumbing – including, but not limited to water lines; gas lines; plumbing fixtures; and drain lines;
- Electrical – including, but not limited to wiring and lighting fixtures; and
- Heating, ventilation and air conditioning systems.

A **Moderate Rehabilitation** Project does not include all major systems and building envelope work as described for Substantial Rehabilitation.

#### 4.05 Owner-Occupied Rehabilitation

All required program documentation that must be included in the Project file is listed in Appendix C, Sections B and C4. See also Section C5 (if applicable).

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<sup>2</sup> Volatile Organic Compound

If Minnesota Housing awards an Administrator Impact Fund Dollars in the form of interest-free Deferred Loan funds to operate an Owner-Occupied rehabilitation program for eligible Homeowners, all requirements of Chapter 6, Part 1, Deferred Loans – Challenge Proceeds, apply.

The requirement to comply with the national Green Communities mandatory criteria as modified by the Minnesota Overlay to the National Green Communities Criteria is not applicable to Owner-Occupied rehabilitation programs.

If an Owner-Occupied rehabilitation Project includes the identification and correction of health and safety hazards, the Minnesota Housing Lead Based Paint Guidebook must be followed.

#### **4.06 Affordability Gap**

All required program documentation that must be included in the Project file is listed in Appendix C, Sections B and C3. See also Section C5 (if applicable).

Funds awarded for Affordability Gap must be approved by Minnesota Housing for one or more of the following specific uses:

- Minimum downpayment amount required by a Homebuyer's first mortgage;
- Homebuyer's settlement charges;
- If additional downpayment is required for a Homebuyer to qualify for the first mortgage;
- If additional downpayment is required for a Homebuyer's housing ratio to meet the program ratio requirements for Affordability Gap financing. (see Section 2.03 of this Procedural Manual);
- Long-term (30+ years) subsidy tied to real property; and/or
- Other Affordability Gap assistance to a Homebuyer as approved by Minnesota Housing.

If Minnesota Housing awards to an Administrator Impact Fund Dollars in the form of interest-free Deferred Loan funds to finance Affordability Gap for eligible Homebuyers, all requirements of Chapter 6, Part 1, Deferred Loans – Challenge Proceeds, apply.

If Minnesota Housing awards and Administrator Impact Fund Dollars in the form of Grant funds to operate an Affordability Gap financing program for eligible Homebuyers, all requirements of Chapter 7, Grants, apply.

HUD must approve nonprofit Administrators of the Impact Fund that provide secondary financing and/or Affordability Gap to an eligible homebuyer who has or will have an FHA-insured first mortgage. In addition to being approved by HUD, the nonprofit must be listed on HUD's Nonprofit Organization Roster.

## **Chapter 5 - General Administration of Impact Fund Award**

All required program documentation that must be included in the Administrator file is listed in Appendix C, Section A. See also Section 5 (if applicable).

### **5.01 Fund Types**

Minnesota Housing will award Impact Fund Dollars to Administrators in the form of:

- An Interim Loan;
- A Deferred Loan; or
- A Grant.

### **5.02 Prohibition Against Layering Impact Fund Dollars**

Administrators may not layer (combine) Impact Fund Dollars in the form of a Deferred Loan or Grant from two separate Impact Fund awards in the same Project unless specifically approved in writing by Minnesota Housing. It is the Administrator's responsibility to review all funding sources in a Project to ensure layering does not occur. If an Administrator's request to layer funds has been approved in writing by Minnesota Housing, the Administrator must indicate both Funding Agreement ID Numbers on the Household Demographic-Project Information Form.

Combining Impact Fund Grant dollars with Deferred Loan dollars from the same Impact Fund award is not considering layering.

Interim Loan funds that will be repaid to Minnesota Housing are exempt from this requirement.

The Administrator must submit a written request to layer funds to Minnesota Housing for review and approval as soon in the process as possible. A written request to layer funds from multiple Impact Fund awards in the same Project must allow sufficient time for Minnesota Housing to review it prior to closing and must include:

- A breakdown of total development costs. For example, new construction or rehabilitation costs, gap financing needs, and the proposed gap financing sources and amounts; and
- A written narrative that explicitly references each Impact Fund award proposed to be layered and why the layering is justified. The request must include a statement outlining the degree of consistency with the award (i.e. the proposed layering is clearly consistent with the award; or inconsistent but still justifiable based on other considerations).

### **5.03 Impact Fund Per-Unit Investment**

If an Administrator seeks to increase an individual unit investment of Deferred Loans or Grants by more than 50% of the maximum per unit investment as stated in the Agreement or the average per unit investment of Deferred Loans or Grants indicated under an Agreement with no stated maximum, the Administrator must obtain prior written approval by Minnesota Housing.

Interim Loan funds that will be repaid to Minnesota Housing are exempt from this requirement.

### **5.04 Eligible Costs**

Eligible Costs include hard and soft costs directly related to eligible activities, which culminate in the construction or rehabilitation of a Qualified Dwelling Unit.

Hard costs are:

- Land and property acquisition;
- Demolition;
- Site Preparation;
- General construction costs;
- Lead mitigation or abatement; and
- Other costs approved by Minnesota Housing.

Soft costs incurred by the Administrator must be reasonable, necessary and must directly relate to the financing of acquisition, construction or rehabilitation of Qualified Dwelling Units. Soft costs are:

- Architectural, engineering or related professional services required to prepare plans, drawing, specifications, or work write-ups;
- Costs to process and settle the financing for a Qualified Dwelling Unit, such as:
  - Private lender origination fees;
  - Credit reports;
  - Fees for the title evidence;
  - Fees for recordation and filing of legal documents;
  - Building permits;
  - Attorney fees;
  - Appraisal and independent cost estimate fees; or
  - Builder or developer fees.
- Costs of any audit that Minnesota Housing may require with respect to Impact Fund Dollars;



- Costs to provide information services such as affirmative marketing and fair housing information to prospective Households; and
- Staff and overhead costs directly related to carrying out an eligible activity, such as:
  - Preparation of work specifications;
  - Deferred Loan or Grant processing;
  - Inspections; and
- Other costs approved by Minnesota Housing.

### **5.05 Administration Fees**

Administrators not directly involved in the development of a Qualified Dwelling Unit and not compensated by a builder or developer fee may take an administration fee. Typically, this fee is paid at time of closing and is noted as a separate line item on the HUD-1 Settlement Statement.

- Minnesota Housing requires the disclosure of all Deferred Loan or Grant administration fees charged to the Household as part of the Administrator's Impact Fund Application for Funds.
- Minnesota Housing requires Administrators to include administrative fees in the total development cost of the Qualified Dwelling Unit whenever possible. If Administrators charge a fee to the Household as a closing cost, the following requirements apply:
  - The maximum administrative fee for a Qualified Dwelling Unit is \$500. Administrative fees higher than the maximum allowed fee of \$500 per unit may be approved at the sole discretion of Minnesota Housing if transaction costs to the Administrator are excessive and the need for the increased Administrative Fee is adequately justified by the Administrator. The Administrator's Impact Fund Application for Funds must itemize the higher costs.
  - When layering with applicable Minnesota Housing partners in a transaction, the policy allows for only one administrative fee charged to the Household. A list of applicable Minnesota Housing partners can be found on Minnesota Housing's website each year under single family RFP materials, partners/co-funders.
  - The fee must be disclosed to the Household in advance with a description of what costs the fee covers.
  - The fee must reflect the administration costs of Deferred Loans or Grants including:
    - Securing and maintaining the funding source;
    - Borrower education specific to the Deferred Loans or Grants;
    - Lender identification, communication, and coordination;
    - Requesting the funds from Minnesota Housing for specific transactions;
    - Document preparation;

- Tracking and reporting and other costs specific to the Deferred Loans or Grants; and
- Other costs as approved in writing by Minnesota Housing.
- The fee may not contain costs including but not limited to:
  - Homebuyer education and counseling not specific to the Deferred Loans or Grants;
  - General consumer credit counseling;
  - CLT borrower education; or
  - Other costs not specific to the Deferred Loans or Grants.
- The description of the fee must reference the Impact Fund Program and may not reference any other Minnesota Housing mortgage or downpayment assistance program. Charging an administration fee for any other Minnesota housing mortgage or downpayment assistance program would violate the terms of those programs.
- Fees to cover other costs such as credit counseling, CLT education and CLT document preparation may be charged in addition to the Deferred Loan or Grant administration fee in accordance with industry regulations, laws and practices.

## **5.06 Developer Fees**

Administrator directly involved in the development of a Qualified Dwelling Unit may charge a builder or developer fee. This fee is paid at the time of closing from home sale proceeds and is noted as a separate line item on the HUD-1 Settlement Statement. The maximum developer fee an Administrator may charge is 10% of the Qualified Dwelling Unit's total development cost however, Administrators are encouraged to charge a lesser amount.

Providing only Affordability Gap financing or Owner-Occupied rehabilitation financing to an eligible Household is not an eligible activity for which an Administrator may charge a developer fee.

Administrators may not charge both an administrator fee and a developer fee for a Qualified Dwelling Unit.

## Chapter 6 – Deferred Loans

All required program documentation that must be included in the Household/Borrower file and the Construction/Property file is listed in Appendix C, Sections B and C.

### Part 1 – Deferred Loans - Challenge Proceeds

#### 6.01 General

Impact Fund Dollars may be provided to an Administrator or Household in the form of an interest-free Deferred Loan to:

- Provide Affordability Gap financing for Households (Homebuyers);
- Bridge funding gaps not covered by a first mortgage or other sources of funding for Qualified Dwelling Units on behalf of the Administrator;
- Provide financing for Owner-Occupied Rehabilitation, or
- To support other eligible activities as specified in the Agreement.

#### 6.02 Disbursements

Administrators will not receive disbursements from current awards until past award outstanding Level 3 Monitoring Exceptions have been cleared by Minnesota Housing.

Administrators must submit a fully executed Request for Funds Form to request disbursement of funds. By executing the Request for Funds the Administrator certifies that the activity delineated in the Agreement has commenced and that the funds being requested will be used to support that activity.

The [Request for Funds](#) form is located on Minnesota Housing's website.

Disbursement of Funds to the Administrator may occur after the Agreement is fully executed as follows:

- If the award  $\leq$  \$50,000 – 1 disbursement;
- If the award  $>$  \$50,000 – up to  $\frac{1}{3}$  of the total is available in the first disbursement at the discretion of Minnesota Housing;
  - When the Administrator has demonstrated (via submission of the Household Demographic and Project Information Form) that a significant portion of the award has been provided to Households, Minnesota Housing, at its sole discretion will make further disbursements to the Administrator upon receipt of the fully executed Request for Funds form; and
  - Disbursements depend upon Project progress as reported by the Administrator and at the sole discretion of Minnesota Housing.

- Minnesota Housing may forward disbursements via wire; electronic funds transfer (EFT) or check, upon execution of the Agreement and receipt of the fully executed Request for Funds form within 10 business days from the receipt of the request.

Notwithstanding the above listed requirements, Minnesota Housing reserves the right to disburse funds more conservatively, i.e.: unit by unit or Project by Project. All disbursements must be used in accordance with this Procedural Manual.

### **6.03 Mortgage Documents**

The Administrator must require the Borrowers to execute the Impact Fund Mortgage and Impact Fund Mortgage Note provided by Minnesota Housing and available on Minnesota Housing's website.

The Impact Fund Mortgage is the legal document used to secure a loan on a Qualified Dwelling Unit. The Household is required to be a party to the mortgage in order to protect the Impact Fund subsidy. The Mortgage must be assigned to Minnesota Housing.

The Impact Fund Note is legal evidence of the debt to be repaid. The Note must be endorsed to Minnesota Housing.

There are two versions of the Impact Fund Mortgage and the Impact Fund Mortgage Note: one for borrowers with an underlying first mortgage that is not FHA and one for borrowers with underlying FHA first mortgage loans. The correct version must be used, as follows:

#### **Non-FHA Mortgage and non-FHA Mortgage Note:**

- MORTGAGE: Community Homeownership Impact Fund (Impact Fund) MORTGAGE (for borrowers receiving Owner-Occupied rehabilitation assistance, or Affordability Gap with an underlying RD, VA, or conventional first mortgage)
- NOTE: Community Homeownership Impact Fund (Impact Fund) MORTGAGE NOTE (for borrowers receiving Owner-Occupied rehabilitation assistance, or Affordability Gap with an underlying RD, VA, or conventional first mortgage).

#### **FHA mortgage and FHA Mortgage Note:**

- MORTGAGE: Community Homeownership Impact Fund (Impact Fund) MORTGAGE (for Borrowers with FHA-insured first Mortgages)
- NOTE: Community Homeownership Impact Fund (Impact Fund) MORTGAGE NOTE (for Borrowers with FHA-insured first mortgages).

#### **6.04 Nationwide Mortgage Licensing System (NMLS) Registration**

- In compliance with the S.A.F.E. Act, all Administrators, including local units of government and non-traditional lenders must determine which staff members are considered mortgage loan originators and must comply with the S.A.F.E. Act and which staff members are exempt from compliance with it.
- The Minnesota Department of Commerce requires (pursuant to MS §58A.03 subd.2) all mortgage lenders and entities deemed exempt to register with the Nationwide Mortgage Licensing System & Registry and obtain a unique identifier number.

#### **6.05 Repayment**

Unless otherwise outlined in the Agreement, Borrower(s) must repay Deferred Loans upon the first occurrence of any of the following events:

- When the Qualified Dwelling Unit is sold, transferred, or otherwise conveyed by the Borrower<sup>3</sup>;
- The date of repayment of the first mortgage, if co-terminus with the Deferred Loan, or
- On the date that is 30 years from the date of the loan closing or at the end of the loan term as delineated in the Impact Fund Mortgage Note.

There may be certain situations which will require repayment of the Deferred Loan when the Borrower(s) cease to occupy the property as their primary residence<sup>4</sup>. Deferred Loans to the Administrator are required to be repaid as per the Agreement.

#### **6.06 Revolving Funds**

Minnesota Housing may, at its sole discretion and on a case by case basis, provide Impact Fund Dollars to an Administrator in the form of a Deferred Loan that may be revolved for the same eligible activity outlined in the Agreement.

The Administrator's ability to revolve the Impact Fund Dollars received beyond the initial two years may be renewed upon application to and approval by Minnesota Housing. Minnesota Housing may at its sole discretion, require the Administrator to apply to renew the ability to revolve the funds through the Single Family RFP.

#### **6.07 Homeowner/ Volunteer Labor Policy**

Impact Fund Deferred Loan proceeds may not be used to pay for materials for repair or rehabilitation completed by the Homeowner(s) or volunteer(s) unless Minnesota Housing approves the purchase of these materials as an eligible cost identified in the Administrator's

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<sup>3</sup> Not applicable if Affordability Gap is used with an FHA first mortgage loan.

<sup>4</sup> Not applicable if Affordability Gap is used with an FHA first mortgage loan.

Impact Fund Application for Funds. If approved, Minnesota Housing reserves the right to require the Administrator to document the materials used and their respective costs.

All work completed with homeowner labor must comply with Section 3.05 of this Procedural Manual. Under no circumstances will Minnesota Housing pay or reimburse the cost of labor performed by the Homeowner or any other Household resident.

## **Part 2 – Deferred Loans - Housing Infrastructure Bond Sale Proceeds**

In addition to the requirements listed below, CLT Administrator Projects awarded Impact Fund Dollars resulting from the sale of Housing Infrastructure Bonds must meet the requirements in section 6.02 of this Procedural Manual.

### **6.08 General**

According to statute, Minnesota Housing may issue Housing Infrastructure Bonds to generate proceeds for specific purposes, including providing CLT Administrators Impact Fund Dollars to finance the following uses related to land owned by or to be owned by a Community Land Trust:

- Acquisition of land;
- Demolition; and/or
- Utility connections.

Deferred Loans offered as a result of the sale of Housing Infrastructure Bonds are structured as forgivable after a period of 30 years.

### **6.09 Properties Eligible to be Financed with Bond Proceeds**

When Deferred Loan – Bond Proceeds awarded on October 25, 2012 are used on a property where an eligibility activity occurs as specified in Sections 4.01 and 6.08 of this Procedural Manual, the property must have been acquired no earlier than September 1, 2012 and be either “Abandoned” or “Foreclosed”, defined as follows:

- “Abandoned” property is property that:
  - Has been substantially unoccupied or unused for any commercial or residential purpose for at least one year by a person with a legal or equitable right to occupy the property;
  - Has not been maintained; and
  - For which taxes have not been paid for at least two previous years.
- “Foreclosed property” is defined as residential property where foreclosure proceedings have been initiated or have been completed and title transferred or where title is transferred in lieu of foreclosure.

Other properties considered “Foreclosed” are:

- A property still occupied by a homeowner which has gone through tax forfeiture. To adequately document tax forfeiture status, the CLT must provide in the file, a copy of the published county tax forfeiture listing, notice of expiration of redemption period or other proceedings in the tax forfeiture process.
- A property still occupied by a homeowner where foreclosure proceedings have been initiated, which requires recordation of the notice of pendency or notice of lis pendens. The CLT Administrator may acquire and sell the property under the community land trust model, to an eligible Owner-Occupant or to the same homeowner if the CLT obtains a copy of the recorded notice of pendency or the recorded notice of lis pendens for the file.
- A foreclosed property that is first purchased and/or rehabilitated by a non-CLT organization before being sold to an eligible CLT Administrator may be sold to an eligible Owner-Occupant providing no one has occupied the property as his or her residence during the period between property acquisition by the non-CLT organization and purchase by the CLT Administrator.

When Deferred Loan – Bond Proceeds awarded on October 23, 2014 are used on a property where an eligibility activity occurs as specified in Sections 4.01 and 6.08 of this Procedural Manual, a property must have been acquired no earlier than September 14, 2014.

### **6.10 Additional Documentation Required**

Files for Projects using Deferred Loan – Bond Proceeds must contain the documents in Appendix C to this Procedural Manual. Additional documentation requirements for units using Deferred Loan – Bond Proceeds awarded October 25, 2012 are detailed below.

#### **For Abandoned Property**

Each file must contain documented evidence provided by a sheriff, deputy sheriff, building inspector, zoning administrator, housing official or other county official that:

- The property was substantially unoccupied or unused by any person with a legal or equitable right to occupy the property for any commercial or residential purpose for at least one year; and
- The property has not been maintained.

In addition to the above-noted 2 requirements, each file for an abandoned property must contain one of the two following documents:

- A statement from the county auditor that property taxes have not been paid for the previous two years; or

- A published delinquency list provided by the county auditor indicating property taxes are delinquent for at least the two previous years.

An appraisal or Multiple Listing Service (MLS) real estate listing is insufficient documentation to meet the requirements for this section.

**For Foreclosed Property**

To show that foreclosure proceedings have been initiated or have been completed, the CLT Administrator must obtain one of the following types of documents for each Project file:

- Initiated – the recorded notice of pendency or the recorded notice of lis pendens; or
- Completed – the title showing transfer happened or documents evidencing title was transferred in lieu of foreclosure.

Acceptable alternative documents include:

- A property tax delinquency list published by the county auditor; or
- Subsequent documents in the tax forfeiture process such as Notice of Expiration of Redemption Period.

An appraisal or Multiple Listing Service (MLS) real estate listing is insufficient documentation to meet the requirements for this section.

**For All Properties** (including those using Deferred Loan Bond Proceeds awarded in either 2012 or 2014)

Within 14 days of the sale of a Project funded in whole or in part by Deferred Loan - Bond Proceeds, the Administrator shall provide Minnesota Housing the following:

- A certificate identifying the amount of the Deferred Loan – Bond Proceeds applied to a Project, and the costs of any eligible site clearing, demolition and utility connection for the Project. Minnesota Housing has provided the *Certificate of Administrator as to Expenditure of Deferred Loan – Bond Proceeds* as the required form to be used for this purpose (either version 2012 or 2014, as applicable). The Certificate must be executed by an officer of the Administrator responsible for its financial management or reporting;
- The market value of the real property relating to the Project (evidenced by a current appraisal accompanying the Certificate); and
- The Household Demographic Form must be submitted to Minnesota Housing upon unit sale to an eligible Owner-Occupant.



### **6.11 Disbursement of Deferred Loan - Bond Proceeds**

Prior to the disbursement of any Deferred - Loan Bond Proceeds, Minnesota Housing must approve the form of the Lease, containing applicable income restrictions to be used by the CLT Administrator for the Project.

No disbursements will be made to a CLT Administrator until all outstanding Level 3 Monitoring Exceptions from past awards have been cleared with Minnesota Housing.

Disbursements must be requested by a CLT Administrator using the Request for Funds form located on the Impact Fund web page. With a Request for Funds, the CLT Administrator must certify that the activity as stated in the Agreement has commenced and that the funds being requested will be used to support this activity.

Disbursement of Deferred Loan - Bond Proceeds awarded to an Administrator may occur pursuant to Section 6.02 of this Procedural Manual.

Notwithstanding the above, Minnesota Housing may, at its sole discretion, disburse funds more conservatively; for example, unit-by-unit or Project-by-Project.

If the amount of Deferred Loan - Bond Proceeds expended for the funded Project exceeds the sum of the market value of the land and the amount of eligible demolition and utility connection costs under the Agreement, the Administrator must, within 30 days of the delivery of the certificate described in section 6.10 of this Procedural Manual, repay Minnesota Housing for the amount of such excess unless otherwise approved in writing by Minnesota Housing.

### **6.12 Repayment of Bond Proceeds**

In general, the CLT Administrator must repay Deferred Loan – Bond Proceeds as specified in the Agreement.

#### **Additional Repayment Requirements**

The CLT Administrator's ground lease assures that properties acquired by the CLT Administrator using Bond Proceeds will remain affordable during the term of the bonds. However, the following apply in the event of the following situations:

- If, during the term of the bonds, the property is sold to a non-CLT Homebuyer or leased to a ground lessee that does not meet the income limits established in the CLT Administrator's ground lease, the CLT Administrator must repay Minnesota Housing all or a portion of the bond proceeds lent to the CLT Administrator and allocable to the property.
- If, during the term of the bonds, the Community Land Trust is dissolved or sells bond-financed property to another entity, unless the successor or the purchaser is a community land trust, all or a portion of the bond proceeds, or the portion of the bond proceeds allocable to the bond-financed property sold must be repaid to Minnesota Housing.

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- If the community land trust property is foreclosed upon during the term of the bonds, bond proceeds do not have to be repaid to Minnesota Housing.

## Chapter 7 – Grants

All required program documentation that must be included in the Household/Borrower file and the Construction/Property file is listed in Appendix C, Sections B and C.

### 7.01 General

Impact Fund Dollars may be awarded to an Administrator in the form of a Grant if the funds will be used to:

- Provide Value Gap financing; or
- Finance other eligible activities that preserve long term affordability or for which repayment is economically infeasible.

### 7.02 Disbursements

Administrators will not receive disbursements from current awards until past award outstanding Level 3 Monitoring Exceptions have been cleared by Minnesota Housing.

Administrators must submit a fully executed Request for Funds Form to request disbursement of Grant funds. By executing the Request for Funds the Administrator certifies that the activity delineated in the Agreement has commenced and that the funds being requested will be used to support that activity.

The [Request for Funds](#) form is located on Minnesota Housing's website.

Disbursement of Funds to the Administrator may occur after the Agreement is fully executed as follows:

- If the award  $\leq$  \$50,000 – 1 disbursement;
- If the award  $>$  \$50,000 – up to  $\frac{1}{3}$  of the total is available in the first disbursement at the discretion of Minnesota Housing;
- When the Administrator has demonstrated (via submission of the Household Demographic and Project Information Form) that a significant portion of the award has been provided to Owner-Occupants, Minnesota Housing, at its sole discretion will make further disbursements to the Administrator upon receipt of the fully executed Request for Funds form;
- Disbursements depend upon Project progress as reported by the Administrator and at the sole discretion of Minnesota Housing; and
- Minnesota Housing may forward disbursements via wire; electronic funds transfer (EFT) or check, upon execution of the Agreement and receipt of the fully executed Request for Funds form within 10 business days from the receipt of the request.

Notwithstanding the above listed requirements, Minnesota Housing reserves the right to disburse funds more conservatively, i.e.: unit by unit or Project by Project. All disbursements must be used in accordance with Section 5.03 and 5.04 of this Procedural Manual.

### **7.03 Repayment**

Grants to the Administrator are required to be repaid as per the Agreement.

## **Chapter 8 – Interim Loans**

All required program documentation that must be included in the Administrator file is listed in Appendix C, Sections B and C.

### **8.01 General**

Minnesota Housing may provide an Interim Loan to acquire, rehabilitate, demolish, and/or construct Qualified Dwelling Units. Whether an Interim Loan to Administrators will bear interest is outlined in the Administrator's Agreement. Interim Loans under the Impact Fund must comply with the provisions of Chapters 1 through 5 and Chapter 9 of this Procedural Manual, as well as with the requirements outlined below.

If an Interim Loan bears interest, interest will accrue at 2% per annum (or another rate as determined by Minnesota Housing) from the date of loan disbursement to the date the Qualified Dwelling Unit is sold to an Owner-Occupant.

If Minnesota Housing determines that a Project requires an Interim Loan and that an interest bearing loan would adversely affect the affordability of the housing for the eligible homebuyers the Administrator will serve, Minnesota Housing may award an interest-free Interim Loan.

### **8.02 Zero Percent (0%) Interim Loans**

If a Project that includes the rehabilitation or construction of Qualified Dwelling Units involves the use of equipment or building materials, or a method of design, construction, marketing or financing which are not generally in use in the housing industry or of which the public is not generally aware, Minnesota Housing may, at the time of application, deem the Project to be innovative, and provide the Administrator with an interest-free Innovative Interim Loan.

Projects selected by Minnesota Housing as innovative must demonstrate qualities such as efficiency, acceptability, effectiveness, durability, and potential for widespread applicability.

### **8.03 Loan Term**

- The term of an Interim Loan is 20 months unless otherwise specified in the Agreement. . Principal and interest, if any, shall be due and payable at the end of the term or when the home is sold to an Owner-Occupant, whichever occurs first.
- Interim Loans shall not be transferred to Homebuyers.
- Minnesota Housing may adjust the Interim Loan term at its sole discretion.

#### **8.04 Revolving Interim Loan Funds**

Minnesota Housing may, at its sole discretion and on a case by case basis, allow the proceeds of an Interim Loan to revolve under the following conditions:

- The eligible activity remains feasible;
- The Administrator uses the proceeds for the same eligible activity originally outlined in the Agreement; and
- The Interim Loan term has not expired.

#### **8.05 Disbursement**

- No disbursements will be made from an award to an Administrator until all past award outstanding Level 3 Monitoring Exceptions have been cleared with Minnesota Housing.
- Disbursements must be requested by an Administrator using the Request for Funds form, located on the Minnesota Housing Impact Fund website. With a Request for Funds, the Administrator must certify that the activity as stated in the Agreement has commenced, and that the funds being requested will be used to support this activity.
- Upon receipt of the Request for Funds form, Minnesota Housing will forward via wire, electronic fund transfer (EFT) or check of up to 50% of the Interim Loan amount within 10 working days. In the event the Administrator can document a need for more than 50% of the award, Minnesota Housing may disburse more funds. The Impact Fund Dollars must be deposited into an interest bearing account and the Administrator or Processing Entity if applicable, may retain the interest earned from this account.

#### **8.06 Repayments**

Generally, Impact Fund Dollars awarded for an Interim Loan, plus interest due, must be repaid when the eligible activity is complete and the Qualified Dwelling Unit is sold to a Homebuyer. Specific repayment requirements will be detailed in the Agreement.

#### **8.07 Interest Rate Calculation**

If the Interim Loan bears interest, interest will begin to accrue upon disbursement of Interim Loan funds from Minnesota Housing to the Administrator. Interest will continue to accrue on the amount disbursed until the date the Interim Loan is repaid to Minnesota Housing. The interest calculation will be completed by Minnesota Housing. If the date of the Homebuyer closing changes, the pay-off figure will also change and the pay-off amount must be recalculated by Minnesota Housing.

## **Chapter 9 – Reporting, Record Retention and Documentation Requirements**

All required program documentation that must be included in the Project file is listed in Appendix C, Section A.

### **9.01 Records Retention**

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

Minimum and/or alternative documentation requirements of loan or Grant products benefiting the Homebuyer/Household in addition to the Impact Fund Loan or Grant does not relieve the Administrator from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing and/or loan audit.

### **9.02 Annual Reporting**

Annual reporting will be required so that Minnesota Housing can track the progress of each Administrator's eligible activities. All Administrators with an open Agreement will be required to provide an Annual Report known as the "Impact Fund Annual Report/Final Close out Report". Minnesota Housing will provide the format for this report.

An updated "Impact Fund Annual Report/Final Close out Report" must also be submitted when an Impact Fund award is completed. A completed Impact Fund award is defined as follows:

- All Impact Fund resources from a specific award have been expended, returned to Minnesota Housing or approved to revolve by Minnesota Housing;
- All Household Demographic/Project Information forms have been submitted to Minnesota Housing; and
- All Deferred Loan documents have been recorded and submitted to Minnesota Housing as required.

If the completed Impact Fund award has unspent funds, the funds must be returned to Minnesota Housing with the Impact Fund Annual Report/Final Close out Report.

### **9.03 Mid-Year Reporting**

Newly-funded administrators (awarded under the previous year's Single Family RFP) are required to submit a mid-year progress report to demonstrate activity that has happened in the first six months of the award contract. The report format to be used is the "Impact Fund Annual Report/Final Award Close out Report," which must be submitted by July 15 of the year

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after funds were awarded. Administrators who have made minimal or no progress will be required to answer additional questions to provide information to explain the delay.



## **Chapter 10 – Servicing of Deferred Loans**

### **10.01 Servicing**

Each Administrator will be assigned a designated servicer by Minnesota Housing. Currently, all Impact Fund Deferred Loans are serviced by AmeriNational Community Services, Inc. (AmeriNational) or other servicer designated by Minnesota Housing. Servicing, satisfaction or subordination inquiries should be directed to AmeriNational's Servicing Department.

Minnesota Housing may, at its discretion, designate other servicers.

### **10.02 Delivery of Loans to Servicer**

Administrator must forward the Deferred Loan, along with the required documentation in the prescribed order and format as specified on the Impact Fund website, to Minnesota Housing within 180 days of the buyer closing:

- Copies of the recorded Impact Fund Mortgage and Assignment of Mortgage;
- The original, endorsed Impact Fund Mortgage Note; and
- A completed Household Demographic-Project Information Form.

### **10.03 Assumption**

Loans are not assumable.

### **10.04 Hardship Policy**

Minnesota Housing has in place a hardship policy for its Deferred Loans that allows forgiveness either in part or whole if the Household is experiencing severe financial hardships that prevent full repayment of indebtedness.

## Appendix A: Definitions

| TERM                               | DEFINITION   |
|------------------------------------|--|
| Accommodation Party                | Anyone with an ownership interest in an eligible property that is not a Borrower. Examples include but are not limited to a non-borrowing relative, spouse, or heir in title to an eligible property, or a seller of a contract-for-deed to an Owner-Occupant.   |
| Administrator                      | The entity with which Minnesota Housing has a contractual relationship to administer Impact Fund Dollars and any successors or assigns approved in writing by Minnesota Housing. Eligible Administrators include a city, a joint powers board established by two or more cities, a federally recognized American Indian Tribe or subdivision located in Minnesota, a tribal housing corporation, a private developer, a non-profit organization, a public housing agency or a natural person who is the owner of a Qualified Dwelling Unit.  |
| Affordability Gap                  | The difference between the total cost of acquiring the dwelling, generally determined by the Fair Market Sales Price of the dwelling, and the amount of the first mortgage loan for which the Owner-Occupant qualifies.  |
| Affordable to the Local Work Force | The amount of housing payments made by the occupants of housing funded under the Challenge program is affordable based on the wages of jobs being created or retained in the local area, the fastest growing jobs in the local area, the jobs with the most openings in the local area, or the wages of the workforce employed by organizations making contributions under the Challenge program. Housing payments are affordable if they do not exceed 30% of the wages being paid in the local area as the wages are described in the application for Challenge program funding. |
| American Indian Household          | A Household that includes at least one household member who is enrolled in a federally recognized tribe.   |
| Annualized Gross Income            | Gross monthly income multiplied by 12. (See Chapter 2 of this Procedural Manual.)  |

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| TERM                       | DEFINITION   |
|----------------------------|--|
| Application for Funds      | The application for funds prepared by an Administrator and submitted in response to the Single Family RFP as accepted in writing or electronically by Minnesota Housing including any conditions, restrictions or limitations contained in the Fund Availability, Disbursement and Loan/Grant Agreement.   |
| Borrower                   | A Household that receives funds in the form of a loan with the obligation of repaying the loan and in addition, any person purchasing the real property securing the loan, executing the promissory note or executing a guarantee of the debt evidenced by the promissory note.  |
| Co-Signer                  | Any one obligated to repay the underlying mortgage loan (signer of the mortgage note) but who is not in title to the subject property and has not signed the mortgage deed.  |
| Community Land Trust (CLT) | A private, non-profit organization that is designated a Section 501 (c) (3) tax-exempt organization and that is authorized to acquire land to be leased for Owner-Occupied single family housing for low-and-moderate-income persons or families and that meets the criteria set forth in Chapter 3 of this Procedural Manual.   |
| Deferred Loan              | A non-amortizing zero percent or low-interest loan from Minnesota Housing to the Administrator which in turn is lent by the Administrator to an Owner-Occupant to provide Affordability Gap financing or rehabilitation or other improvements to Qualified Dwelling Units which must be repaid to the extent provided in the Agreement and Chapter 6 of this Procedural Manual, be processed and closed by the Administrator and be assigned and transferred to Minnesota Housing. |

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| TERM   | DEFINITION   |
|--|--|
| Fair Market Sales Price                                  | The market value of a property as determined in an appraisal as completed by a licensed, qualified, third party appraiser at the time of sale to the Homebuyer, in accordance with the Uniform Standards of Professional Appraisal Practice.   |
| Fund Availability, Disbursement and Loan/Grant Agreement | The legal contract executed between Minnesota Housing and an Administrator that includes a cover letter and that may be amended or supplemented in writing according to its terms. This “Agreement” articulates funds awarded to an Administrator pursuant to Impact Fund and/or Indian Housing Set-aside funds to complete Eligible Activities.     |
| Grant  | Funds awarded by Minnesota Housing to an Administrator under the Agreement generally not requiring repayment and for use by the Administrator in accordance with this Procedural Manual.   |
| Homebuyer  | A type of Household that benefits from the use of an Impact Fund award in the new construction or the acquisition, rehabilitation and resale of a Qualified Dwelling Unit and/or for Affordability Gap financing to acquire a Qualified Dwelling Unit.   |
| Homeowner  | A type of Household eligible to use Impact Fund Dollars for the rehabilitation of a Qualified Dwelling Unit in which the Household has an ownership interest.  |
| Household  | A Homebuyer or Homeowner who meets Impact Fund Program guidelines and is eligible to receive Impact Fund Dollars from an Administrator.  |
| Housing Ratio  | The portion of Household’s monthly gross income (Annualized Gross Income divided by 12) necessary to pay the Borrowers’ monthly housing expense which includes: monthly principal and interest charges on the first and any subordinate mortgage(s), property taxes, hazard insurance, mortgage insurance and any Homeowners Association (HOA) fees. |
| Impact Fund Agreement Identification (ID) Number         | The unique identifier assigned to an Administrator’s award and listed on the Agreement which must be used on all forms and correspondence with Minnesota Housing.  |

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| TERM                               | DEFINITION   |
|------------------------------------|--|
| Impact Fund Application for Funds  | An Administrator’s request for Impact Fund Dollars prepared in response to Minnesota Housing’s Single Family RFP.  |
| Impact Fund Dollars                | The aggregate funds identified in Section 2.01 of the Agreement that Minnesota Housing will reserve and make available to the Administrator for eligible activities under the Agreement.   |
| Indian Housing Set-Aside Funds     | A set-aside funding source that is awarded by the Impact Fund to a specific Administrator to exclusively serve American Indian Households by conducting eligible activities under the Agreement and pursuant to this Procedural Manual.  |
| Interim Loan                       | A short-term, non-or-low-interest bearing loan made to an Administrator to assist with acquiring, demolishing, rehabilitating or constructing Owner-Occupied housing   |
| Land                               | The real property upon which Qualified Dwelling Units are located or to be constructed.  |
| Level 3 Monitoring Exception       | A monitoring finding that is a critical exception and requires a response by the Administrator. Level 3 findings are usually violations of published program guidelines and may significantly increase the overall risk to the program/project. A Level 3 finding is the only type of monitoring exception that requires a response. |
| Lien Waiver                        | A legal document that is executed by a contractor, subcontractors and material suppliers under which they relinquish any right they may have to place a lien on the property for work performed or materials supplied.   |
| Low Income Households              | Households whose Annualized Gross Income is less than or equal to 80% of state or area median income (AMI). Income limits are listed on Minnesota Housing’s website.   |
| Low and Moderate Income Households | Households whose Annualized Gross Income is less than or equal to 115% of state or area median income (AMI). Income limits are listed on Minnesota Housing’s website.  |

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| TERM                     | DEFINITION  |
|--------------------------|---|
| Owner-Occupant           | A Homeowner or Household whose income does not exceed 115% of state or area median income (AMI) as adjusted from time to time by the US Department of Housing and Urban Development and as listed on Minnesota Housing’s website. An Owner-Occupant must own the Qualified Dwelling Unit and use it as their Principal Residence. A Household that has purchased a property subject to a contract-for-deed is considered an Owner Occupant. |
| Plans and Specifications | Documents including drawings, diagrams or sketches that describe the work to be done, as well as all measurements and construction details and a detailed list of the products and materials.   |
| Private Developer        | An individual or a for-profit, non-governmental entity, including, but not limited to, a cooperative housing corporation.   |
| Principal Residence      | The property which the Homebuyer regularly occupies as their main dwelling place for at least nine months of the year.  |
| Processing Entity        | A Minnesota Housing approved lender who enters into a contract with an Administrator to process Impact Fund awards.   |
| Procedural Manual        | This Community Homeownership Impact Fund Program Procedural Manual  |
| Project                  | The real estate and the Qualified Dwelling Unit(s) situated thereon.  |
| Public Housing Agency    | Any state, county, municipality or other governmental entity or public body (or agency or instrumentality thereof) that is authorized to engage or assist in the development or operation of low-income housing.  |
| Qualified Dwelling Unit  | A structure consisting of one-to-four units, a condominium or a townhouse which will be occupied by the owner as his or her Principal Residence and which is located on or will be constructed on Land and are part of a Project.   |

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| TERM                                     | DEFINITION   |
|--|--|
| Single Family Request for Proposal (RFP) | The process by which the Single Family Division of Minnesota Housing solicits Administrator Applications for Funding under the Impact Fund Program.  |
| Scope of Work                            | A detailed outline of the necessary rehabilitation work to be completed on the Project.  |
| Sworn Construction Statement             | A sworn statement of fact made by a general contractor that lists all of the work to be performed on a Qualified Dwelling Unit, the subcontractors who will perform the listed work, material suppliers who will supply materials for the listed work, and the cost of each individual item of work and item of material that will be supplied.                      |
| Title Company                            | An organization that provides property title examination and title insurance coverage, closing services and disbursements of construction funds.   |
| Tribal Land                              | Any land owned or governed by a federally recognized tribe.  |
| Underserved Populations                  | Households of color or Hispanic ethnicity; single, heads of Households with minor children; and Households with a disabled member(s).  |
| Value Gap                                | Financing to assist the Administrator to fund the difference between the Fair Market Sales Price and the total development cost of a Qualified Dwelling Unit. Value Gap assistance is available in the form of a Grant to bridge the cost of property acquisition and improvement or construction of a Qualified Dwelling Unit and the appraised value of that unit. |

## **Appendix B: Forms List**

Household Demographic Project Information Form  
Impact Fund Mortgage  
Impact Fund Mortgage Note  
Request for Funds  
Impact Fund Annual Report/Final Close Out Report  
Non-Occupant Spouse Statement  
Zero Income Statement  
Extension Request



## Appendix C: Required Program Documentation

### A. ADMINISTRATOR FILE

|  |  |
|--|--|
|  | Annual/Progress Reports (if applicable)  |
|  | The Agreement  |
|  | Evidence of Minnesota Housing staff approval of Program-, Household-and/or-Property-specific Waiver(s), as applicable.   |
|  | Request for Funds  |
|  | Administrator insurance certificate(s) - Commercial General Liability and Worker's Compensation, at statutory coverages. |
|  | Other Correspondence (if applicable)   |

### B. HOUSEHOLD/BORROWER FILE

|                     |  |                          |
|---------------------|--|--------------------------|
| Household Last Name | First Name   | Middle Initial           |
| Property Address    | City   | Impact Fund Award Number |
|                     | Verification of American Indian tribal affiliation/membership (if applicable)  |                          |
|                     | Appraisal completed, at the time of sale to the Homebuyer by a licensed, qualified, third party appraiser in accordance with the Uniform Standards of Professional Practice (not required for owner occupied rehab)                                      |                          |
|                     | Assignment of Mortgage to MHFA (if applicable)   |                          |
|                     | Impact Fund Mortgage and Mortgage Note (for Affordability Gap-financed houses and Borrowers receiving Owner-Occupied rehabilitation Deferred Loans)  |                          |
|                     | Good Faith Estimate & Truth-in-Lending disclosure, or, if Household's application was received on or after August 1, 2015, a Loan Estimate (applicable if Administrator provides a deferred loan for Affordability Gap or Owner-Occupied rehabilitation) |                          |
|                     | Mortgage Note for underlying first mortgage of Homeowner in cases of an occupying Co-Signer (not required for Owner-Occupied rehabilitation)   |                          |
|                     | Documented method to determine Affordability Gap   |                          |
|                     | Lender/Owner's Title Insurance Policy (if purchased) or Attorney's Title Opinion   |                          |
|                     | Evidence of Tennessee and data privacy disclosure  |                          |
|                     | Household Demographic/Project Information Form   |                          |
|                     | Income Verification, including but not limited to two years of federal income tax returns and  |                          |

|  |  |
|--|--|
|  | one month of recent paystubs   |
|  | Non-Occupant Spouse Statement (if applicable)  |
|  | Zero Income Statement (if applicable)  |
|  | Annualized Gross Income Worksheet (optional)   |
|  | Proof of ownership – copy of Deed, Certificate of Title or approved equivalent, such as an Owners & Encumbrance Report                                   |
|  | Purchase Agreement (if applicable)   |
|  | Settlement statement or closing document (HUD-1 or HUD-1A, or, if Household's application was received on or after August 1, 2015, a Closing Disclosure) |
|  | Notice of Homeowner's Right of rescission (for Owner-Occupied rehabilitation)  |
|  | Land Lease Agreement (if applicable)   |

### C. CONSTRUCTION/PROPERTY FILE

|          |   |
|----------|---|
| <b>1</b> | <b>New Construction and Acquisition/Rehabilitation/Resale</b>   |
|          | Building Permits  |
|          | Certificate of Occupancy or Certificate of Completion   |
|          | Evidence of clear predevelopment title – Title Insurance (if applicable)  |
|          | Evidence of using State licensed contractor   |
|          | Final Project Budget/Cost Summary (including documented method to determine Value Gap)  |
|          | Scope of Work – Rehab   |
|          | Bids, Cost Estimates for Improvements or a Cost Study   |
|          | Site and Building Plans and Specifications (New Construction)   |
|          | Survey (New Construction)   |
|          | Sworn Construction statement and corresponding lien waivers (or approved equivalent)  |
|          | Evidence of Foreclosed or Abandoned Property, as required by the Agreement (If using bond proceeds awarded in October 2012, see Section 6.10 for specific requirements) |
|          | Housing Infrastructure Bond Proceeds Certificate, (evidence of expenditure of deferred loan), if applicable (See Section 6.10 for details)                              |

|          |   |
|----------|---|
| <b>2</b> | <b>Green Compliance</b>   |
|          | All of the following documents must be collected for homes financed with awards after 2013. For older awards, pay special attention to which documents are required using the award date. |
|          | <b>October 2008-Present (New Construction)</b>  |
|          | <b>2009-Present (Acquisition/Rehabilitation/Resale)</b>   |
|          | Pre-construction, post board approval: Intended Methods form or   |

|  |  |
|--|--|
|  | Enterprise Prebuild Approval Notification  |
|  | Post-construction: Compliance Report or Green Communities Certification  |
|  | Green Compliance Waivers (if applicable)   |
|  | <b>Required for Post 2011 Awards</b>   |
|  | Pre-construction:  |
|  | Acquisition/Rehabilitation: Energy Audit and Energy Efficiency Improvement Plan  |
|  | Substantial Rehabilitation: HERS Rating Report or Blower Door Test Report  |
|  | New Construction: Energy Model Energy Star for Homes   |
|  | Post Construction:   |
|  | Acquisition/Rehabilitation: Blower Door Test Report  |
|  | New Construction and Substantial Rehabilitation: Home Energy Rating Certificate  |
|  | Rehabilitated Homes Built Prior to 1978: Lead Based Paint Summary and Clearance Report                                   |
|  | Acquisition/Rehabilitation: Radon Testing Report   |
|  | <b><u>Required for Post 2013 Awards</u></b>  |
|  | Pre-construction: Impact Fund Application Checklist, Minnesota Overlay to the 2011 Enterprise Green Communities Criteria |

*This document is subject to change. Affordability Gap programs (without any construction or rehabilitation) in the unit and Owner-Occupied rehabilitation programs are currently exempt from green compliance.*

|          |   |
|----------|---|
| <b>3</b> | <b>Owner Occupied Rehab</b>                           |
|          | Rehabilitation Scope of Work                          |
|          | Bids, Cost Estimates for Improvements or a Cost Study |
|          | Evidence of using State licensed contractor           |
|          | Building Permits                                      |
|          | Certificate of Completion                             |
|          | Final Project Budget/Cost Summary                     |

### **Manufactured Housing**

|          |  |
|----------|--|
| <b>4</b> | <b>Manufactured Housing</b>                              |
|          | Building Permits (utility hook-ups, etc.)                |
|          | Certificate of Occupancy                                 |
|          | Documented method to determine Value Gap (if applicable) |
|          | Evidence of using State licensed contractor/installer    |
|          | Bids, Cost Estimates for Improvements or a Cost Study    |
|          | Final Project Budget/Cost Summary                        |
|          | Scope of Work – Rehab                                    |

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Administrators using Indian Set-aside Funds should contact Minnesota Housing to determine the acceptability of additional documents equivalent to those provided in the lists above.