



**Minnesota Housing
Home Improvement Loans
Fix Up Program Procedural Manual**

February 13, 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 programs that address Minnesota’s housing needs by providing financial and related technical assistance opportunities so that all Minnesotans have decent, safe, affordable housing and stronger communities.

Minnesota Housing established the Fix Up and the Community Fix Up to encourage and support the preservation of existing housing.

Home Improvement Loan Programs

Fix Up Loan

Below market interest rate home improvement loans to Borrowers throughout Minnesota.

Community Fix Up Loan

Below market interest rate home improvement loans available throughout Minnesota under special initiatives with specific participating lenders.

- The Discount Loan Initiative allows lenders to establish their own interest rates by buying down the standard Community Fix Up rate using leveraged funds.
- The Value Added Services Initiative allows lenders to provide or partner with non-profit or governmental organizations for value-added services to address community needs.

Chapter 1 – Partner Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing Programs executed between the Seller and Minnesota Housing. It is incorporated into the Participation Agreement by reference and is a part thereof as fully as if described in the Participation Agreement at length.

Minnesota Housing reserves the right to:

- Change the program interest rate at any time under its sole discretion;
- Alter or waive any of the requirements;
- 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 is under no obligation to purchase any loan or retain ownership of a loan that does not comply fully with this Procedural Manual. Minnesota Housing grants waivers, alterations or revisions at its sole discretion.

1.02 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 these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, a Seller discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Seller must promptly report the discovery to Minnesota Housing.
- Minnesota Housing may exercise all remedies available to it, both legal and equitable, to recover funds from the Seller or the Borrower. This includes loan funds, together with all applicable administrative costs and other fees or commissions received by the Seller in connection with the loan and for all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery thereof.

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

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Chapter 270A) allows the disclosure of the Borrower's Social Security Number or Minnesota Tax Identification 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 to Minnesota Housing.

1.04 Unauthorized Compensation

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

- Kickbacks, rebates or discounts; or
- Commissions; or
- Other compensation.

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Seller is required to keep on file a complete copy of documents for each loan purchased by Minnesota Housing. A loan file may be requested to be made available to Minnesota Housing at the Seller's Minnesota office during regular business hours or a copy forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, the following:

- A minimum of 10% of all loans purchased;
- All loans which go into early payment default (90 days or more past due) in the first 12 months; and
- Loans originated by the Seller with higher-than-average delinquency rates.

Audited loans are reviewed for:

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

1.06 Termination of Seller Participation

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

- This Procedural Manual;
- The Participation Agreement;
- The Federal Fair Housing Law and the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Borrower's rights with regard to obtaining financing for home improvement; and
- Other applicable state and federal laws, rules and regulations.

Upon termination of a Seller’s contract, Minnesota Housing will:

- Continue to purchase eligible loans for which a commitment was issued, until the commitment expiration date; and
- Not refund participation fees to the Seller.

Minnesota Housing may, at its option, impose other remedies short of contract cancellation for Seller nonperformance.

The Seller may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate a Seller is at Minnesota Housing’s sole discretion.

1.07 Representations and Warranties

The Seller agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following (and any applicable rules, regulations and orders there under):

- Minnesota Statute §47.20;
- Minnesota Statute §58.04;
- Minnesota Statute §325G.15 and §325G.16;
- Minnesota Statute §334.01;
- 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;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Federal Trade Commission Trade Regulation Rule Concerning Preservation of Consumers’ Claims and Defenses (Holder Rule), 16 CFR §433;
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- 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 (Regulation Z);
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy; and
- Real Estate Settlement and Procedures Act of 1974.

In addition to the above warranties and representations, the Seller also warrants and represents the following are true and correct at the time of loan delivery to Minnesota Housing:

- The Seller is the sole owner and holder of the loan with the right to assign it to Minnesota Housing;
- The Seller assigns the loan free and clear of all encumbrances;
- The Seller has directly or indirectly collected from the Borrower, or any other person, only those fees or charges specifically permitted in this Procedural Manual;
- There are no defaults in complying with the terms of the mortgage;
- The Seller has no knowledge of any circumstances or conditions with respect to the loan, the property to be improved, or the Borrower's credit standing that could make the loan an unacceptable investment or cause the loan to become delinquent;
- The loan meets all applicable state and federal laws pertaining to usury and the loan is not usurious;
- The Seller has disbursed the loan proceeds to the Borrower by cash, check, money order, or crediting of a Borrower's account in a way that the Borrower will have complete access to and control of the funds at all times;
- The Seller has not advanced funds, nor induced or solicited any advance of funds by another, directly or indirectly for payment of any amount required by the loan;
- The Seller has delivered and assigned a Direct Loan and has complied with all state and federal regulations to make sure the loan is not a Dealer Loan;
- The Seller will maintain adequate capital and trained personnel for participation in the Fix Up program;
- The relevant requirements of any state or federal laws with respect to consumer credit, plain language consumer contracts, and truth-in-lending are satisfied;

- Any loan transaction subject to the right of rescission which has not been effectively waived, has been delivered after the rescission period has expired and the loan has not been rescinded;
- The Seller has no knowledge that any improvement covered by the loan is in violation of any zoning law or regulation; and
- The Seller also agrees that the person who confirms on the Minnesota Housing Loan Commitment System the Seller Representations and Warranties on behalf of the Seller is fully conversant with Minnesota Housing program requirements and has the authority to legally bind the Seller; and the Seller has complied with all terms, conditions, and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions, and requirements are specifically waived in writing by Minnesota Housing.

1.08 Seller Compensation

Secured Loans

The Seller is compensated for each secured Fix Up loan or Community Fix Up loan purchased by Minnesota Housing as follows:

- A Processing fee of \$400 for each Fix Up loan; or
- A Processing fee of \$400 for each Community Fix Up loan; and
- The Seller may charge, and the Borrower may finance, an origination fee of not more than 1% of the principal balance of the loan, the actual cost of the title search and flood certification, and the actual cost of document preparation not to exceed \$50.
- The Seller may charge, and the Borrower may finance, the actual cost of a broker's purchase price opinion based on a Competitive Market Analysis (CMA), not to exceed \$150.00.
- Credit investigation fees up to \$15, recording fees and mortgage registration tax fees must be paid from the Borrowers own funds and may not be financed in the loan amount.

Unsecured Loans

- The Seller is compensated \$250 for each unsecured Fix up Fund loan purchased by Minnesota Housing.¹
- The Seller may charge, and the Borrower may finance, the actual cost of document preparation not to exceed \$50.
- Credit investigation fees up to \$15 must be paid from the Borrowers own funds and may not be financed in the loan amount.

¹ Community Fix Up loans must be secured by a lien in favor of Minnesota Housing.

- There are no origination fees, title search, flood certification, recording or mortgage registration tax fees for unsecured loans.

1.09 Annual Renewal Requirements and Fees

- An annual renewal fee in the amount of \$250;
- Minnesota Housing may adjust the annual renewal fees at any time at its discretion; and
- The Seller must meet the minimum loan volume requirements as specified by Minnesota Housing.

1.10 Selection of Contractors

The Seller must permit the Borrower to choose a contractor(s).

Chapter 2 – Borrower Eligibility

2.01 Borrower

One individual or multiple individuals are eligible to be a Borrower(s) only if the individual or individuals meet the requirements of this Procedural Manual.

2.02 Borrower Age

The Borrower must be eighteen (18) years of age or older or be declared emancipated by a court having jurisdiction.

2.03 Guarantors

- Guarantor(s) are allowed when the income and credit history of the guarantor(s) are to be included for the purpose of qualifying the Borrower(s) for the loan pursuant to section 4.06 of this Procedural Manual.
- Guarantor(s)' credit scores must meet or exceed the Borrower minimum credit scores specified in section 2.07 of this procedural manual.

The Fix Up Note and Credit Application must be fully executed by the Borrower(s) and Guarantor(s).

2.04 Unauthorized Compensation

The Borrower may not receive kickbacks, rebates, discounts, or compensation from any subcontractor or any party to the transaction.

2.05 Ownership Interest

The Borrower(s) must individually, or in the aggregate, possess at least a one-third ownership interest in the residence to be improved.

The Borrower(s) and Accommodation Parties, individually or in the aggregate, must have 100% ownership interest in the residence to be improved.

Eligible forms of ownership interest include the following:

- A fee simple estate; or
- A leasehold estate; or
- A leasehold estate subject to a Community Land Trust; or
- A home-site lease upon tribal trust land (unsecured loans only).

Ineligible forms of ownership interest include but are not limited to the following:

- Shares in a Cooperative Corporation;

- Ownership by any form of trust except Community Land Trust and individual home-site lease assignments on tribal trust land; and
- Ownership subject to a reverse mortgage (except that unsecured loans may be made to a Borrower(s) whose ownership interest is subject to a reverse mortgage and when the Borrower(s) agree to automatic monthly payments).

Title may be held in the following ways:

- Individually;
- Joint Tenants;
- Tenants in common;
- Tenancy by the entirety;
- Vendee interest in a recorded contract-for-deed; or
- A recorded life estate. (Remaindermen to a life estate aren't eligible to be a Borrower, but remaindermen and spouses, if any, must sign the mortgage that secures the loan.)

Secured Loans

Title investigation may be conducted by the Seller through documented contact with the County Recorder's Office/Registrar of Titles, or with an Owner's and Encumbrances report.

Unsecured Loans

The Borrower(s) ownership interest must be documented using the most recent property tax statement and a copy of the deed (mortgage deed, warranty deed, quitclaim deed, etc.).

When a property is located on tribal trust land, the Seller must obtain a copy of the Borrower's home-site lease assignment.

2.06 Principal Residence/Occupancy Requirement

The Borrower(s) must own and occupy the property as their Principal Residence at the time of Fix Up loan closing. Further, the Borrower(s) must continue to own and occupy the property as their Principal Residence during the term of the loan.

2.07 Credit Scores

The minimum allowable credit score(s) for Borrower(s), Co-Borrower(s), and Guarantor(s), if applicable, are as follows:

- 620 for secured loans; and
- 680 for unsecured loans.

If the Borrower(s), Co-Borrower(s), and Guarantor(s), if applicable, do not have available credit scores, at least three alternative credit sources showing payments are made as agreed must be

established in accordance with the requirements listed in section 4.06 of this Procedural Manual.

Note: Alternative credit sources may not be used to offset unavailable credit scores for a Borrower requesting an unsecured loan. (Section 4.06)

2.08 Fix Up Loan Program Eligibility Income

Annualized Gross Income is the gross annual income as of the date of the Credit Application from whatever source derived, before taxes or withholdings, of:

- The Borrower(s);
- The Borrowers' spouse, if any; and
- Any other household resident who has ownership interest in the property to be improved.

The Minnesota Housing maximum total Eligibility Income may not exceed the amounts listed on Minnesota Housing's website.

Note: Refer to exceptions below when originating loans for Accessibility Improvements and Incentive Rate Energy Conservation and Accessibility Loans.

Annualized Gross Income includes:

- Salary, commissions, bonuses, tips, earnings from part-time employment;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation, and sick pay;
- Net rental income after adding back depreciation;
- Net income received from business activities after adding back depreciation, entertainment and travel expenses, and private retirement contribution;
- Alimony, child support;
- Estate or trust income;
- Seasonal employment income; and
- Contract-for-deed income deducting principal, interest, taxes, and insurance paid by the property Seller on outstanding debt against the property. (Deductions cannot exceed the contract-for-deed income.)

Ineligible income adjustments include:

- Any temporary, nonrecurring reduction of income of a known duration including, but not limited to, layoff, maternity leave, or sabbatical leave may not be considered when calculating gross annual income. Rather, income is calculated based on the normal annual income of the temporarily unemployed person.

Exception for Accessibility Improvements:

- The maximum household income may be waived with prior written approval by Minnesota Housing when the loan proceeds will be used exclusively for Accessibility Improvements. If anticipating a waiver, the income of the spouse and any other household resident who has ownership interest in the property to be improved is not considered in qualifying the Borrower(s) for the loan.

Exception for Energy Conservation Improvements:

- The maximum household income is waived when the loan proceeds will be used exclusively for energy conservation improvements outlined in Section 5.02 of this Procedural Manual. As such, the income of the spouse and any other household resident who has ownership interest in the property to be improved is not considered in qualifying the Borrower(s) for the loan.

2.09 Separated Spouses

When the Seller establishes that a spouse permanently resides outside the household, the income of that separated spouse is excluded from eligibility income as calculated pursuant to Section 2.08 of this Procedural Manual. However, the separated spouse must sign the mortgage.

Examples of separated spouse documentation include:

- Legal separation documentation; or
- Proof of initiated divorce proceedings; or
- Verification of separate Principal Residence and absence of joint accounts.

2.10 Loans to Employees and Affiliated Parties

The Seller may make Minnesota Housing loans to their directors, officers, employees, or their families as well as to builders, realtors, and their families, and any other principal with whom the Seller does business. Minnesota Housing employees and their families are eligible. The Borrower must satisfy all eligibility criteria for the program.

Chapter 3 – Property Eligibility

3.01 Eligible Properties Minnesota Housing

In order to qualify as an eligible property for a Minnesota Housing loan, the residence must be:

- Located in the State of Minnesota;
- At least 90 days old with an issued certificate of occupancy;
- A property without short term construction financing; and
- A residential property, which includes:
 - A single family detached home;
 - An individual unit in a Planned Unit Development (PUD);
 - A townhome²;
 - A unit of a condominium³;
 - A manufactured home permanently affixed to a foundation and taxed as real property;
 - A duplex⁴;
 - A triplex⁵;
 - A fourplex⁶.

3.02 Manufactured Homes

Minnesota Housing distinguishes between two types of manufactured homes. Manufactured (factory-built) housing is eligible for home improvement financing under these programs if:

- Modular Homes – Homes built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for home improvement financing.
- Mobile Homes – The homes are built on wheeled chassis, which remain a basic structural element.

Mobile homes are acceptable if they meet the following requirements:

- Must be located on property owned or being purchased by the Borrower;
- Must be on a permanent foundation with wheels and axles removed;
- All utility connections are operable so that the home is habitable;

² If the property is a townhome, only the portion of the real estate owned by the Borrower is eligible.

³ If the property is a condominium, only the portion of the real estate owned by the Borrower is eligible.

⁴ The Borrower must occupy one unit of the property.

⁵ The Borrower must occupy one unit of the property.

⁶ The Borrower must occupy one unit of the property.

- Unit must be assessed/taxed as real estate;
- Unit being improved meets all other eligibility requirements under this Procedural Manual; and
- Security for the loan to purchase the manufactured home is in the form of a mortgage covering the property.

3.03 Ineligible Properties

Properties not eligible for financing are as follows:

- A property containing more than four dwelling units;
- Recreational or seasonal homes;
- A mobile home taxed as personal property; or
- A property primarily used for business (more than 50% of the floor space is used for business).

3.04 After Improved Value Limit (Equity)

A secured Fix Up Loan, when combined with all other existing indebtedness secured by the property, may not exceed 110% of the property's after-improved value. The after-improved value is determined by adding no more than 50% of the total cost of proposed improvements to the property's current market value.

Current market value may be determined using any one of the following documents:

- Estimated Market Value from the most recent property tax statement for the property to be improved;
- Broker's purchase price opinion based on a CMA if the following criteria applies:
 - It must be ordered by a lender; and
 - It must be completed by a disinterested third party within 120 days of the Fix Up loan closing;
- The lesser of the purchase price or related appraised value for the purchase of the home occurring within the past 12 months before the Fix Up loan closing; or
- If the Borrower(s) has/have owned the property for more than 12 months, an existing appraisal dated within the most recent preceding 12 months before the Fix Up loan closing.

3.05 Right to Inspect

Minnesota Housing or its authorized representative has the right to inspect the property to be improved at any time from the date of the Fix Up Note, upon giving due notice to the Borrower.

3.06 Local Ordinances and Plans

Properties being improved must conform to all applicable zoning ordinances and possess all appropriate use permits.

Chapter 4 – Loan Eligibility

4.01 Eligible Loans

General Loan Eligibility Requirements

Minnesota Housing purchases closed and funded loans from Sellers under contract in Minnesota Housing loan programs. The Seller must warrant that the following criteria are met for each loan submitted for purchase:

- All loans are originated, processed, credit underwritten, closed, and disbursed in accordance with the requirements of this Procedural Manual;
- If the loan is secured by a mortgage in first lien position, the combination of the interest rate and loan repayment term may not cause the annual percentage rate (APR) for the loan to exceed the first lien position rate published on Minnesota Housing’s website by more than .49%;
- All loans must be current as to monthly payments at the time of loan purchase;
- All local, state, and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending, and wrongful discrimination in residential housing are met;
- Minnesota Housing program income and property requirements are met; and
- The loan must be originated and closed in the name of the Seller that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing via the Minnesota Housing Loan Commitment System.

Eligible Loan Types/Loan Amounts/Loan Terms⁷

<u>Fix Up Loan Type</u>	<u>Min. Ln. Amt.</u>	<u>Max. Ln. Amt.</u>	<u>Min. Ln. Term</u>	<u>Max Ln. Term</u>
Regular - Secured Loan	\$2,000	\$50,000	1 year	20 years
Regular - Unsecured Loan	\$2,000	\$15,000	3 years	10 years
Energy/Accessibility Incentive-Secured Loan	\$2,000	\$15,000	1 year	20 years
Community Fix Up - Secured Loan	\$2,000	\$50,000	1 year	20 years

The above loan repayment terms apply subject to the following:

- The maximum possible maturity on a loan in an amount less than or equal to \$10,000 is 10 years.
- The maximum possible maturity for secured loans in an amount greater than \$10,000 is 20 years.
- The Seller will not make a loan term for an unreasonable length of time. Final maturity of the loan will be commensurate with the Borrower’s ability to pay, including such considerations as debt-to-income ratio, size of household, and Annualized Gross Income.

⁷ See also Sections 4.02 and 4.12 of this procedural manual.

- For properties secured by a mortgage or contract-for-deed, the Fix Up loan term may not extend beyond the balloon payment due date, if applicable.
- For tribal trust properties:
 - the loan term may not extend beyond the term of the individual home-site lease; and
 - the loan must be unsecured.

4.02 Ineligible Loans

Loans ineligible for purchase by Minnesota Housing include, but are not limited to:

- Any Fix Up or Community Fix Up loan secured by a mortgage in first lien position and having an APR that exceeds the first lien position rate published on Minnesota Housing's website by more than .49%.
- Any secured Fix Up Loan or any secured Community Fix Up Loan subject to a reverse mortgage.
- Any secured Fix Up loan to any Borrower(s), Co-Borrower(s), or Guarantor(s) with a minimum credit score (s) below 620.
- Any secured loan to any Borrower(s), Co-Borrower(s), or Guarantor(s) who is/are without a credit score(s) and is/are unable to establish satisfactory alternative credit with at least a 6-month history.
- Unsecured loans to a Borrower(s), Co-Borrower(s), or Guarantor(s) that have no established credit score.
- Unsecured loans to a Borrower(s), Co-Borrower(s), or Guarantor(s) with a credit score(s) below 680.
- Unsecured loans in an amount greater than \$15,000 or the addition of an unsecured loan to one already existing that would cause the total outstanding unsecured loans to exceed \$15,000.
- Energy Conservation and Accessibility loans in an amount greater than \$15,000 or the addition of an Energy Conservation and Accessibility loan to one already existing that would cause the total outstanding Energy Conservation and Accessibility loans to exceed \$15,000.
- Secured loans on properties located on tribal trust land.
- Loans with repayment terms in excess of the terms referenced in Section 4.01.

4.03 Eligible Improvements

The proceeds of a loan under this Procedural Manual will be used to finance permanent improvements which:

- Improve the basic livability or energy efficiency of the property⁸, including:
 - Structural Additions;
 - Alterations;
 - Renovations and repairs; or
- Bring a property into compliance with state, county, municipal health, housing, building, fire, and housing maintenance codes or other public standards applicable to housing, including:
 - Replacement of a well; and
 - A Septic system upgrade or replacement.

If the Fix Up loan will be used to reimburse the Borrower for improvements started or materials purchased before the loan closing, the Seller must document the following through the use of receipts or paid billing statements:

- The improvements were made within the 120-day period immediately preceding loan closing;
- The cost of materials and improvements; and
- The improvements are eligible under the Fix Up Loan Program.

4.04 Ineligible Improvements

Ineligible improvements include, but are not limited to the following:

- Costs associated with a project which is incomplete (i.e. framing a room addition) unless accompanied by written verification of sufficient cash on deposit or approval from a supplemental funding source, to complete the project;
- Any improvement which is not a permanent fixture to the property (appliances, furniture or other personal items are not fixtures under Minnesota law);
- Payment, wholly or in part, of assessments for public improvements;
- Construction of or addition to existing residential garage space which will result in garage space per property, exceeding 800 square feet;
- Improvements to a garage that is in excess of 800 square feet;
- Construction of or aesthetic improvements to recreational facilities including, but not limited to, gazebos, tennis courts, hot tubs, swimming pools, saunas;

⁸ A property includes the main residence; its porch or deck; a garage not exceeding 800 square feet, attached or detached; any sidewalks, retaining walls or driveways within the property's boundaries as outlined in the legal description.

- Conversion of a nonresidential structure to a residential structure;
- Conversion of a recreational home to a year-round permanent residence;
- Costs associated with moving a house;
- Greenhouse;
- Improvements to a recreational home;
- Improvements begun more than 120 days before the loan closing;
- Improvements to the portion of buildings or real estate owned by the association in a PUD or Condominium project;
- Labor costs paid to the Borrower or any resident of the household;
- Materials or permanent fixtures which exceed the quality of those in the locality of the subject property;
- New construction or expansion of an area used in a trade or business;
- Playground equipment;
- Repairs to or construction of outbuildings including, but not limited to, sheds, utility buildings, shops, barns, silos; and
- Underground sprinkler systems.

4.05 Bids and Estimates for Improvements

Before making a loan, the Seller must obtain current (no more than 120 days before the loan closing or bid expiration date) bids and estimates having sufficient detail to show both the estimated cost and the eligibility of the improvements.

4.06 Credit Requirements

The credit report (and any supplemental information) upon which the Seller relies must be current, and must show the Borrower to be solvent with a reasonable ability to repay the obligation, and, in other respects, to be a prudent lending risk.

The Seller must have and utilize normal and prudent written underwriting standards. These standards must include, but are not limited to, the following minimum credit criteria:

- All documentation used as a basis for credit underwriting of the loan must be dated within 120 days of loan closing. This includes documentation relative to credit reporting and income verification.
- The Borrower(s), Co-Borrower(s), and Guarantor(s) must meet the minimum credit scores established in Section 2.07 of this Procedural Manual as follows:
 - Secured loan – minimum credit score of 620.
 - Unsecured loan – minimum credit score of 680.

- The Borrower(s), Co-Borrower(s), and Guarantor(s) requesting an unsecured loan must have a credit score(s) and those credit score(s) must be at least 680.
- If the credit report(s) for the Borrower(s), Co-Borrower(s), and Guarantor(s) indicate the credit score(s) are unavailable, the credit report(s) documenting no score(s) must be retained in the loan file; and
 - The Seller must establish an alternative credit history clearly documenting routine consistent payments were made as agreed during the most recent preceding 6-month period from at least three of the following:
 - Mortgage lenders, contract for deed vendors, or others able to verify housing expense and payment history⁹;
 - Public utilities;
 - Telephone companies;
 - Cable television providers; or
 - Internet providers.
- All qualifying income used in calculating the monthly debt to gross income ratio (DTI) must be stable and likely to continue. Further, documentation that the income used to qualify the Borrower(s) is stable and likely to continue must be obtained and retained in the loan file.
- The Borrower(s)' monthly DTI may not exceed 48% unless there is a Guarantor and:
 - The Borrower(s)' monthly DTI does not exceed 55%; and
 - The combined monthly DTI for the Borrower(s) and the Guarantor does not exceed 48%.
- If the Borrower(s) has reported, or the credit report indicates, a bankruptcy or foreclosure, the following applies:
 - Chapter 7 Bankruptcy:
 - The fact that the bankruptcy was discharged must be verified on the credit report; and
 - The Order Discharging Debtor must be dated at least 18 months before the loan closing; and
 - If the discharge date is not clearly identified on the credit report:
 - ◆ A copy of the Order Discharging Debtor must be retained in the loan file; and
 - ◆ The Order Discharging Debtor must be dated at least 18 months before the loan closing.

⁹ If using this option, and if the Borrower was living in the subject property for less than 6 months, or a 6-month payment history is not available, rent payments at a previous address may supplement the available payment history for the subject property.

- Chapter 13 Bankruptcy:
 - The completion of repayment plan must be verified on the credit report; and
 - The date of completion of the repayment plan must be at least 18 months before the loan closing; and
 - If the completion date is not clearly identified on the credit report:
 - ◆ The Trustee must provide written verification that the repayment of debt was completed; and
 - ◆ A copy of the written verification of Chapter 13 Bankruptcy completion must be retained in the loan file.
- Foreclosure
 - The date of completion of the redemption period for the foreclosure must be at least 18 months before the loan closing; and
 - Written verification of completion of the redemption period must be retained in the loan file.

Note: Refer to Section 3.04 of this procedural manual for age of property value documentation requirements.

4.07 Homeowner Labor

- All labor completed by the homeowner(s) must comply with all applicable building code regulations and ordinances;
- All necessary licenses and permits must be obtained;
- Homeowner(s) and any other household residents may not be reimbursed for labor using Fix Up Loan funds; and
- The Fix Up Homeowner Labor Agreement must be fully executed and included in the loan file. This form is located on the forms page of Minnesota Housing's website.

4.08 Interest Rate/Payment Requirements

General Interest Rate and Payment Information

The annual simple interest rates for all loans under the Fix Up are the rates stated on Minnesota Housing's Website, as applicable.

A final payment in an amount other than the regular installment may be required but may not be more than one and one-half times the amount of the regular installment.

Secured Loans and Unsecured Loans without Monthly Automatic Payments

Level monthly payments are required with the first payment due date to be 20 to 45 days following the Fix-up Note date. The monthly payment is to be based on the loan amount, loan term and loan interest rate.

Unsecured Loans with Monthly Automatic Payments

- The interest rate is the rate posted on Minnesota Housing’s website and is one half of one percent below the rate for a loan without monthly automatic payments.
- Monthly automatic payments require that the Borrower complete the Authorization Agreement for Monthly Automatic Payment¹⁰. The Resources section of the Fix Up Forms page of Minnesota Housing’s website contains a link to this form.
- The Borrowers may choose to have the loan payment deducted from either a checking or savings account.
- The Seller must submit a void blank check or savings account deposit slip with the executed Authorization Agreement for Monthly Automatic Payment within 5 days of purchase approval. (Section 7.02)
- Level monthly payments are required with the first payment due date to be 20 to 45 days following the Fix-up Note date.
- The choices for payment draft dates on the Authorization Agreement for Monthly Automatic Payment are the 5th, 10th, 15th, or 20th of the month. Borrowers must choose either the payment due date or a date preceding the payment due date as the draft date. If no date is chosen, the draft date is the 5th of each month.
- If three or more payments are rejected or returned through the Monthly Automatic Payments system within a year, or if the Borrower voluntarily terminates participation in the Monthly Automatic Payment Program, Minnesota Housing will immediately and permanently increase the interest rate on the loan by one-half (.50%) of one percent.

4.09 Conventional Loans

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

4.10 Credit Application

A fully completed, signed and dated Credit Application is required.

4.11 Refinancing

Minnesota Housing will not purchase loans for the purpose of refinancing or reimbursing the Borrower(s) for expenses incurred on the subject property more than 120 days before the loan closing, except in the following circumstance:

¹⁰ AmeriNat (Servicer) form.

- Consolidation of the outstanding balance(s) of previously received Minnesota Housing loans when the Borrower is applying for funds to implement new eligible improvements, subject to the following conditions:
 - When consolidating the outstanding balance of previously received Fix Up or Community Fix Up loan(s), a prepayment penalty may apply (refer to the existing Fix Up Loan Note); and
 - Previously originated Fix Up loans with outstanding balances may not be consolidated into a new Fix Up Unsecured or Energy Conservation and Accessibility Loan.

4.12 Maximum Outstanding Loan Limit

- The total of outstanding Minnesota Housing Fix Up, Community Fix Up, Home Energy and Revolving loans, and any new Fix Up, Fix Up Unsecured, Energy Conservation and Accessibility, or Community Fix Up loans may not exceed \$50,000. The Seller must verify the Borrower's outstanding loan balance does not exceed the limit. (See Section 4.01 for Accessibility loan exception.)
- The total of Fix Up Unsecured loans that a Borrower(s) may have outstanding at one time, may not exceed \$15,000.
- The total of Energy and Accessibility loans that a Borrower(s) may have outstanding at one time may not exceed \$15,000.

4.13 Closing Costs and Pre-Paid Finance Charges

- A credit investigation fee of up to \$15 per loan may be collected by the Seller. This fee must be collected from the Borrower and may not be deducted from proceeds or financed in the loan.
- Recording fees and mortgage registration tax costs may be collected from the Borrower but may not be included in the face amount of the secured Fix Up Loan Note or paid from loan proceeds.
- The Seller may charge and the Borrower may finance in a secured Fix Up loan, an origination fee of not more than 1% of the principal balance of the loan.
- The Seller may charge and the Borrower may finance in a secured Fix Up loan, the actual cost of the title search and flood certification.
- The Seller may charge and the Borrower may finance the actual cost of document preparation not to exceed \$50.
- The Seller is required to verify the legal description of the subject property, the Borrower's ownership interest, and any existing liens, including reverse mortgages.

- If the Borrower chooses to obtain credit life and accident and health insurance, the cost of this insurance may not be included in the face amount of the Fix Up Note or paid from loan proceeds.

4.14 Non-Complying Loans

Minnesota Housing has the right to take one or more of the following actions in the event a Seller submits a loan that does not, as determined by Minnesota Housing, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Seller to repurchase the loan for the purchase price;
- Terminate, suspend, or otherwise limit the Seller's Participation Agreement with Minnesota Housing; or
- Preclude the Seller from future participation in Minnesota Housing programs.

4.15 Repurchase of Loans

Minnesota Housing may, at its option, tender to the Seller any loan for repurchase if:

- Any representation or warranty of the Seller or the Borrower with respect to the loan is determined by Minnesota Housing to be materially incorrect; or
- The loan is not in compliance with any term(s) or condition(s) described in the Participation Agreement and this Procedural Manual.

Upon written notice of repurchase by Minnesota Housing, the Seller has ten (10) business days to submit payment to Minnesota Housing for the unpaid principal balance, accrued interest, and reasonable expenses incurred by Minnesota Housing, including attorney's fees. Failure to comply with this requirement may result in the termination, suspension, further legal action, or otherwise limit the Seller's Participation Agreement with Minnesota Housing.

Chapter 5 – Special Assistance Program Requirements

5.01 Community Fix Up

Community Fix Up loans must meet the loan requirements of the Fix Up program and the Community Fix Up Initiative. The Seller is responsible to determine the Borrower meets the Initiative's requirements.

- Discount Loan Initiatives:
 - Provides lenders with the ability to offer alternative interest rates under the Community Fix Up Loan Program using leveraged funds to buy down the current program rate.
 - Minnesota Housing reimburses the lender for the loan principal and processing fee and the loan is serviced at the rate and payment amount indicated on the Fix Up Note.
- Value Added Services:
 - The Lenders provide value-added services or partner with non-profit or governmental organizations offering value-added services to address community needs.

5.02 Incentive Rate Energy Conservation and Accessibility Loans

Incentive rate loans are eligible for reduced interest rates and must be used exclusively for energy conservation and Accessibility Improvements and meet all the requirements of this Procedural Manual as modified below:

- Eligible improvements for Energy Conservation Loans must meet Energy Star® requirements and are limited to:
 - Window replacement with Energy Star® Windows
 - Heating system replacement;
 - Central air conditioning replacement;
 - Water heater replacement;
 - Light fixture replacement; or
 - Insulation/attic air sealing.
- Since Energy Star® requirements change over time, the Sellers must refer to the Fix-up Loan Program Energy Improvements List that may be accessed on Minnesota Housing's website for the specific, technical requirements of eligible energy improvements.
- Eligible Accessibility Improvements for reduced rate loans include but are not limited to:
 - Construction entrance or exit ramps;
 - Widening interior or exterior doors or hallways;
 - Moving electrical outlets and switches;

- Installing or modifying fire alarms, smoke detectors and other alerting systems;
- Installing handrails, grab bars or stairway lifts; or
- Modifying hardware, doors or bathrooms.
- For other Accessibility Improvements not listed above, the Fix Up Program Accessibility Evaluation form must be used to document the accessibility needs of the Borrower(s). The Accessibility Evaluation form must be submitted to Minnesota Housing for approval before commitment.

For requirements pertaining to waiver Annualized Gross Income, refer to Section 2.08.

For requirements pertaining to loan amount minimums and maximums as well as loan term minimums and maximums, refer to Section 4.01 of this procedural manual.

Chapter 6 – Commitment/Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program or initiative during any business day as listed:

- A maximum dollar amount of money a Seller may commit, or
- A maximum number of Individual Commitments a Seller may commit.

The Seller may commit funds on a first-come, first-served basis. Fund balances and current interest rates are available on the Minnesota Housing Website or by logging into the Minnesota Housing Loan Commitment System.

Individual Commitments are to be considered as “forward commitments” by the Seller. It is expected that the loan will be submitted to gain a Purchase Approval status via the Minnesota Housing Loan Commitment System.

6.01 Requesting a Commitment

Once the Seller has determined that a Borrower meets the loan requirements, an Individual Commitment of funds is requested through Minnesota Housing’s Loan Commitment System.

Requests for a commitment that meet the eligibility requirements in this Procedural Manual are authorized electronically.

Commitments are valid for 120 days. All commitments are automatically cancelled at day 121.

Loans must meet eligibility requirements and gain a status of Purchase Approval via the Minnesota Housing Loan Commitment System no later than the last day a commitment is still valid.

6.02 Modifying a Commitment

- Any change to a commitment must meet eligibility requirements and be submitted via the Minnesota Housing Loan Commitment System to qualify.
- Any qualifying commitment change will not alter the commitment period of the original commitment.
- A change of the Borrower or the property on the commitment will not be allowed.
- An increase in the loan amount is allowed if funds are available.

6.03 Canceling a Commitment

Minnesota Housing requires the Seller to cancel any commitment that will not be used for the specified loan.

6.04 Transfer of Individual Commitments

The Seller may not transfer commitments to another Seller without prior written approval by Minnesota Housing. Minnesota Housing may transfer a commitment under the following conditions:

- The Seller requests in writing a transfer of the commitment to a different Seller and documents the reason; and
- The original Seller must transfer or assign case documents to the new Seller.

6.05 Duplicate Borrower Commitments

The Seller may not cancel an Individual Commitment and subsequently recommit funds for the same Borrower/property in order to obtain a more favorable commitment term.

6.06 Minnesota Housing Loan Purchase/Disbursement of Funds

Minnesota Housing will purchase loans with a status of Purchase Approval by the daily cutoff time, Monday through Friday, except for state and trustee observed holidays. The disbursement of funds will occur on the next business day.

Minnesota Housing's computations are the basis for the loan purchase.

A Lender Certificate detailing purchase transaction details is available only via the Minnesota Housing Loan Commitment System.

6.07 Loan Purchase Corrections

If it is determined that an adjustment to the purchase price of any purchased loan is necessary, Minnesota Housing will either invoice the Seller for any funds to be returned or disburse additional funds to the Seller.

Chapter 7 – Documentation Requirements

7.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- Loans must be closed, and disbursed, before requesting Minnesota Housing loan approval via the Minnesota Housing Loan Commitment System;
- Loans must be current as to monthly payments;
- The Seller must follow Minnesota Housing and all industry standard regulatory and compliance provisions throughout the processing of the loan;
- All loan documents must be on Minnesota Housing forms or industry standard forms that meet Minnesota Housing requirements;
- Minnesota Housing or industry standard forms may not be altered in any way other than to add a company name and logo;
- All loan documents must be complete, accurate, and reviewed by the Seller at the various and appropriate stages of the loan;
- The loan must be originated and closed in, or assigned to, the name of the Seller that is a party to the Participation Agreement and that has received an Individual Commitment of funds from Minnesota Housing;
- All assignments must run directly from the Seller to Minnesota Housing; and
- All assignments must use the Minnesota Uniform Conveyancing Blank.

7.02 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the Loan Transmittal form detailing specific documentation/delivery requirements. The Seller must fully execute and deliver documents within designated timeframes. In addition, the Seller must specifically warrant the following:

- The Seller has obtained, and reviewed, applicable documentation to determine compliance with all Minnesota Housing requirements and industry standard regulations and requirements;
- The Seller has properly executed the Fix Up Note bearing the simple interest rate on the Individual Commitment; and
- The Seller has reviewed both the Fix Up Note and Mortgage to make sure appropriate signatures were obtained and duly notarized.

Documentation not delivered to Minnesota Housing/Service within the specified timeframes, may result, at Minnesota Housing's discretion, in the Seller being required to repurchase the loan, or any other remedy as identified in this Procedural Manual. Minnesota Housing may also, at its discretion, extend the timeframes.

7.03 Signature Requirements

Fix Up Note and Credit Application

- The Borrower(s) must sign the Fix-up Loan Note and the Credit Application as the Borrower(s).
- If the Borrower's spouse or any other resident of the household with ownership interest is included in qualifying the loan, those person(s) must sign the Fix Up Note and Credit Application as a Co-Borrower(s).

Mortgage

Any person with an ownership interest, whether or not they reside in the property must sign the Mortgage.

7.04 Records Retention

The Seller must retain any and all documents (including compliance with Minnesota Housing program guidelines) as may be required, including, but not limited to:

- A Written verification of all major sources of income;
- The Credit report and any necessary supplementary information;
- A Written verification of current property ownership (if contract-for-deed, a copy of the properly recorded contract);
- The bids and estimates for all proposed improvements; and
- All compliance documents required by the Seller's regulatory authority.

Chapter 8 - Servicing

8.01 Servicing

- Each Seller is assigned a designated servicer by Minnesota Housing.
- Minnesota Housing may, at its discretion, designate other servicers.

8.02 Delivery of Loans to Servicer

The Seller must forward the loan, along with the required documentation in the prescribed order and format, to the assigned Servicer by mail within five (5) calendar days of Minnesota Housing purchasing the loan.

8.03 Assumption

Loans are not assumable.

8.04 Due on Sale

Loans are immediately due and payable under the terms of the Fix Up Note upon first occurrence of either of the following conditions:

- Sale or transfer of any or all of the Borrower's interest in the residence; or
- At the time the property is no longer used by the Borrower as a Principal Residence.

Appendix A: Definitions

All terms used in the Procedural Manual use industry standard definitions except for the following:

TERM	DEFINITION
Accommodation Party	An owner of the property who is not a Borrower on the Fix Up Note, such as a non-borrowing spouse or a contract-for- deed vendor.
Accessibility Improvement	An interior or exterior improvement or modification to a property, which is necessary to enable a resident or a Borrower with a permanent physical or mental condition that substantially limits one or more major life activities to function in that property.
Annualized Gross Income	Gross monthly income multiplied by 12.
Dealer Loan	A loan where an intermediary such as a contractor, salesman or materials supplier, having a financial interest in the contract for the repair, alteration, or improvement of the Borrower’s property, intervenes or participates in the application for or disbursement of the loan.
Direct Loan	A Loan applied for by, and disbursed to the Borrower; and where the Credit Application, signed by the Borrower is filled out by: <ul style="list-style-type: none"> A. The Borrower; or, B. A maker of the Fix Up Note other than a Borrower; or, C. A person acting at the direction of a Borrower who has no financial interest, directly or indirectly, in the contract for the repair, alteration, or improvement of the Borrower’s property.
Incentive Rate Energy Conservation and Accessibility Improvement Loans	Those loans referenced in Section 5.02 of this Procedural Manual. (As opposed to the Regular Secured Accessibility Loan under the Fix Up Program.)
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.

TERM	DEFINITION
Fix Up Loan Program Eligibility Income	Annualized Gross Income as of the date of the Credit Application from whatever source derived, before taxes or withholdings, of: <ul style="list-style-type: none"> • The Borrower(s); • The Borrowers’ spouse, if any; and • Any other household resident who has ownership interest in the property to be improved. The Minnesota Housing maximum gross household income may not exceed the amounts listed on Minnesota Housing’s website.
Minnesota Housing Program Underwriting Income	Gross annual income that is verified and documented as stable and likely to continue. This income is used to determine: <ul style="list-style-type: none"> • the Debt-to-Income Ratio for the Borrower(s) and Guarantor(s); and • whether approving the loan application constitutes a prudent investment risk.
Order Discharging Debtor	The notice filed with the Bankruptcy Court proving the bankruptcy case was successfully completed and all debt was discharged. Note: If the bankruptcy case is dismissed, it means that something went wrong with the case and the debts are still owed to the creditors.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and the household.
Seller	A lender under contract to participate in Minnesota Housing programs.

Appendix B: Forms List

Accessibility Evaluation for Reduced Interest Rate
Authorization Agreement for Monthly Automatic Payment (Servicer Form)
Credit Application
Homeowner Information
Homeowner Labor Agreement
Income Eligibility Calculation Worksheet
Loan Transmittal
Fix Up Note