



**Fix-up Fund
Program Procedural
Manual**

March 30, 2012

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

An equal opportunity employer.

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

Introduction	1
Mission Statement.....	1
Background	1
Home Improvement Loan Programs	1
Chapter 1 – Partner Responsibilities and Warranties	2
1.01 Procedural Manual.....	2
1.02 Evidence of Misconduct Referred to Attorney General	2
1.03 Disclosure & Use of SS Number/Minnesota Tax Identification Number.....	3
1.04 Unauthorized Compensation	3
1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements.....	3
1.06 Termination of Seller Participation	4
1.07 Representations and Warranties.....	4
1.08 Seller Compensation	6
1.09 Annual Renewal Requirements and Fees.....	6
1.10 Selection of Contractors.....	6
Chapter 2 – Borrower Eligibility.....	7
2.01 Borrower	7
2.02 Borrower Age	7
2.03 Guarantors	7
2.04 Unauthorized Compensation	7
2.05 Ownership Interest	7
2.06 Principal Residence/Occupancy Requirement.....	8
2.07 Minnesota Housing Program Eligibility Income.....	8
2.08 Separated Spouses	9
2.09 Loans to Employees and Affiliated Parties	9
Chapter 3 – Property Eligibility.....	10
3.01 Eligible Properties Minnesota Housing	10
3.02 Manufactured Homes.....	10
3.03 Ineligible Properties	11
3.04 After Improved Value Limit.....	11
3.05 Right to Inspect.....	11
3.06 Local Ordinances and Plans	11
Chapter 4 – Loan Eligibility	12
4.01 Eligible Loans	12
4.02 Ineligible Loans	12
4.03 Loan Amount.....	12
4.04 Eligible Improvements	13
4.05 Ineligible Improvements	13
4.06 Bids and Estimates for Improvements.....	14
4.07 Credit Requirements.....	14
4.08 Security Requirements.....	14
4.09 Homeowner Labor.....	14
4.10 Interest Rate/Payment Requirements	15
4.11 Repayment Term	15
4.12 Prepayment Penalty	15
4.13 Conventional Loans	16
4.14 Credit Application.....	16
4.15 Refinancing	16
4.16 Maximum Outstanding Loan Limit.....	16
4.17 Closing Costs and Pre-Paid Finance Charges	17
4.18 Non-Complying Loans.....	17
4.19 Repurchase of Loans	17

Chapter 5 – Special Assistance Program Requirements	19
5.01 Community Fix-up Fund.....	19
Chapter 6 – Commitment/Disbursement.....	20
6.01 Requesting a Commitment	20
6.02 Modifying a Commitment	20
6.03 Canceling a Commitment	20
6.04 Transfer of Individual Commitments	21
6.05 Duplicate Borrower Commitments	21
6.06 Minnesota Housing Loan Purchase/Disbursement of Funds	21
6.07 Loan Purchase Corrections	21
Chapter 7 – Documentation Requirements	22
7.01 Loan Processing and Closing.....	22
7.02 Minnesota Housing Documentation/Delivery Requirements.....	22
7.03 Signature Requirements.....	23
7.04 Records Retention.....	23
Chapter 8 – Servicing	24
8.01 Servicing	24
8.02 Delivery of Loans to Servicer	24
8.03 Assumption/Due-On-Sale	24
Appendix	25
Definitions.....	26
Forms List	28
Process Guide.....	29

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 Fund and the Community Fix-up Fund to encourage and support the preservation of existing housing.

Home Improvement Loan Programs

Fix-up Fund

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

Community Fix-up Fund

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 Fund rate using leveraged funds.
- The Non-Prime Initiative allows lenders to charge a slightly higher interest rate in order to use expanded underwriting guidelines to benefit borrowers not otherwise able to qualify for home improvement financing.
- 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 Seller and Minnesota Housing. It is incorporated into such Participation Agreement by reference and is a part thereof as fully as if set forth in such 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 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 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 shall promptly report such discovery to Minnesota Housing.
- Minnesota Housing may exercise all remedies available to it, both legal and equitable, to recover funds from the Seller and/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

Seller may receive fees approved in this Procedural Manual. However, Seller shall not receive or demand from builder, remodeler, contractor, supplier, 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 done by 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 and/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 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/or 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 has been 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.

Seller may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate a Seller shall be 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
- 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);
- 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;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement and Procedures Act of 1974.

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

- Seller is the sole owner and holder of the loan with the right to assign it to Minnesota Housing.
- Seller assigns the loan free and clear of all encumbrances.
- Seller has directly or indirectly collected from the Borrower or any other person, only those fees and/or charges specifically permitted in this Procedural Manual;
- There are no defaults in complying with the terms of the mortgage;
- 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;
- Seller has disbursed the loan proceeds to the Borrower by cash, check, money order or crediting of a Borrower's account in such a way that the Borrower will have complete access to and control of the funds at all times;
- 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;
- Seller has delivered and assigned a Direct Loan and has complied with all state and federal regulations to ensure the loan is not a Dealer Loan;
- Seller will maintain adequate capital and trained personnel for participation in the Fix-up Fund program;

- The relevant requirements of any state or federal laws with respect to consumer credit, plain language consumer contracts and truth-in-lending have been 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;
- Seller has no knowledge that any improvement covered by the loan is in violation of any zoning law or regulation; and
- Seller also agrees that the person who confirms on the HDS SF Web Application 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 Seller has complied with all terms, conditions and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions and requirements have been specifically waived by Minnesota Housing in writing.

1.08 Seller Compensation

Seller is compensated for each loan purchased by Minnesota Housing as follows:

- Processing fee of \$200 for each Fix-up Fund loan; or,
- Processing fee of \$300 for each Community Fix-up Fund 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.

In addition, Seller may collect from the Borrower:

- Credit investigation fees up to \$15.00; and
- Recording fees and mortgage registration tax fees.

1.09 Annual Renewal Requirements and Fees

- Annual renewal fee of \$250 (this fee is waived for Sellers also participating in Minnesota Housing home mortgage programs).
- Minnesota Housing may adjust the annual renewal fees at any time at its discretion.
- Seller must meet the minimum loan volume requirements as specified by Minnesota Housing.

1.10 Selection of Contractors

Seller must permit Borrower to choose contractor(s).

Chapter 2 - Borrower Eligibility

2.01 Borrower

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

2.02 Borrower Age

Borrower must be eighteen (18) years of age or older or have been 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 4.07 of this procedural manual.

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

2.04 Unauthorized Compensation

Borrower shall not receive kickbacks, rebates, discounts, and/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.

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

- Shares in a Cooperative Corporation;
- Ownership by any form of trust; and,

- Ownership subject to a reverse mortgage.

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, excluding remaindermen

2.06 Principal Residence/Occupancy Requirement

Borrower must occupy the property on a year-round basis.

2.07 Minnesota Housing Program Eligibility Income

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

- Borrower(s);
- 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.

Gross annual projected household 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;
- Ongoing educational grants paid directly to the Borrower; and
 - Contract-for-deed income deducting principal, interest, taxes, and insurance paid by 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, sabbatical leave may not be considered when calculating gross annual income. Rather, income shall be 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.

2.08 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 2.07 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.

2.09 Loans to Employees and Affiliated Parties

Seller may make Minnesota Housing loans to their directors, officers, employees and/or their families as well as to builders, realtors and/or their families, and any other principal with whom the Seller does business. Minnesota Housing employees and/or 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; and
- A residential property, which includes:
 - A single family detached home;
 - An individual unit in a Planned Unit Development (PUD);
 - A townhome¹;
 - A unit of a condominium²;
 - A manufactured home permanently affixed to a foundation and taxed as real property;
 - A duplex³;
 - A triplex⁴;
 - A fourplex⁵;
- Properties must be completed and habitable⁶:
 - A certificate of occupancy has been issued for the property, and
 - Any property financing is long-term (not construction financing).

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;

¹ If the property is a townhome, only the portion of the real estate owned by the Borrower is eligible.

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

³ The Borrower must occupy one unit of the property.

⁴ The Borrower must occupy one unit of the property.

⁵ The Borrower must occupy one unit of the property.

⁶ A newly constructed home is a completed property if it has been used as a year-round permanent residence for at least 90 days prior to the date of the Borrower application

- All utility connections are operable so that the home is habitable;
- 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

A secured loan will not be made in an amount which, combined with all other existing indebtedness secured by the property, exceeds 110% of its market value after anticipated improvements.

3.05 Right to Inspect

Minnesota Housing or its authorized representative shall have the right to inspect the property to be improved at any time from the date of the Fix-up Fund 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

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

- All loans have been 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 have been met;
- Minnesota Housing program income and property requirements have been 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 HDS SF Web Application.

4.02 Ineligible Loans

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

- Any Non-Prime Community Fix-Up Fund loan secured by a mortgage in first lien position; and,
- Any Fix-Up Fund or Community Fix-Up Fund 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%.

4.03 Loan Amount

- The minimum and maximum loan amounts for loans secured by a mortgage in subordinate lien position are as follows:
- Minimum - \$2,000
- Maximum - \$35,000, subject to the limitation imposed in Section 4.16 of this procedural manual.

The maximum loan amount may be waived upon prior written approval by Minnesota Housing when loan proceeds will be used exclusively for Accessibility Improvements.

Minnesota Housing may, at its option, require a higher minimum loan amount for loans secured by a mortgage in first lien position.

4.04 Eligible Improvements

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

- Improve the basic livability or energy efficiency of the property, including:
 - Additions
 - Alterations
 - Renovations and/or repairs, or
- Bring a property into compliance with state, county, municipal health, housing, building, fire and/or housing maintenance codes or other public standards applicable to housing.

Improvements shall not have commenced prior to the date of the loan closing with the exception of emergency repair financing as specified in Section 4.15.

4.05 Ineligible Improvements

Ineligible improvements include but are not limited to the following:

- 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 improving existing garage space which will result in personal use garage space per property, exceeding 800 square feet and 3 stalls;
- Construction of or aesthetic improvements to recreational facilities including, but not limited to, patios, gazebos, tennis courts, hot tubs, swimming pools, saunas;
- 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;
- Costs associated with a project which will be incomplete (i.e. framing a room addition);
- Greenhouse;
- Improvements to a recreational home;
- Improvements begun prior to the day of 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.

4.06 Bids and Estimates for Improvements

Prior to making a loan, Seller shall obtain itemized bids and estimates for all proposed improvements from the Borrower to establish improvement eligibility and estimated cost.

4.07 Credit Requirements

- Seller must have and utilize normal and prudent written underwriting standards.
- 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 Borrower's monthly debt to average gross monthly income ratio may not exceed 48% unless:
 - There is a Guarantor; or
 - Seller uses a Home Stretch certificate or industry-accepted compensating factors to approve a Borrower.
 - In either case:
 - The Borrower's monthly debt to average gross monthly income may not exceed 55%; and
 - The combined monthly debt to gross monthly income of the Borrower and the Guarantor may not exceed 48%.

4.08 Security Requirements

All loans must be secured with a mortgage on the property to be improved.

4.09 Homeowner Labor

All improvement work completed by the Borrower shall comply with all applicable building code regulations and ordinances and all necessary licenses and permits shall be obtained. Borrower shall not pay labor costs to themselves or other household residents.

4.10 Interest Rate/Payment Requirements

- The annual simple interest rate for loans secured by a mortgage in subordinate lien position shall be the rate stated on Minnesota Housing's Website.
- The annual simple interest rate for loans secured by a mortgage in first lien position shall be the rate stated on Minnesota Housing's Website.
- 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.
- 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.

4.11 Repayment Term

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 a loan in an amount greater than \$10,000 is 20 years. Seller must use discretion to avoid excessive loan terms when the Borrower shows the financial ability to handle a shorter loan term. Final maturity of the loan shall be commensurate with the Borrower's ability to pay including such considerations as debt-to-income ratio, size of household and projected household income. Loan terms shall not be extended for an unreasonable length of time based on the factors mentioned above.

For properties being purchased with a mortgage from private individuals, the loan term may not extend beyond the date of any balloon payment.

Minnesota Housing may, at its option, establish minimum repayment terms for loans secured by a mortgage in first lien position.

4.12 Prepayment Penalty

- A prepayment penalty, if applicable, is equal to the lesser of 60 days interest or 2% of the outstanding principal balance at the time of loan pay-off.
- A prepayment penalty will be charged on a loan with an original term in excess of 36 months and with a loan amount equal to or greater than \$4,000 that is paid in full within 36 months of the Fix-Up Fund Note date.

- A prepayment penalty will not be charged if:
 - loan prepayment is due to the sale of the property;
 - the original loan term is less than or equal to 36 months;
 - the loan is secured with a first lien position;
 - the loan is originated under a Community Fix-up Fund Non-Prime Initiative; or,
 - the principal amount of the loan is less than \$4,000.00.

4.13 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.

4.14 Credit Application

A fully executed Credit Application is required.

4.15 Refinancing

Minnesota Housing will not purchase loans for the purpose of refinancing or reimbursing the Borrower for expenses incurred on the subject property prior to the day of loan closing except in the following circumstances:

- Refinancing of short-term emergency financing of eligible improvements within thirty (30) days of incurring the original debt; or
- Consolidation of the outstanding balance(s) of previously received Minnesota Housing loans when the Borrower is applying for funds to implement new eligible improvements.
- When consolidating the outstanding balance of previously received Fix-up Fund or Community Fix-up Fund loan(s), a prepayment penalty will apply in the following circumstances:
 - Loans with a principal amount of \$4,000 or more; and,
 - Loans with an original term in excess of 36 months being paid off within the first 36 months of the loan term.

4.16 Maximum Outstanding Loan Limit

The total of outstanding Minnesota Housing Fix-up Fund, Community Fix-up Fund, Home Energy and Revolving loans and any new Fix-up Fund or Community Fix-up Fund loan amount may not exceed \$35,000. Seller must verify the Borrower's outstanding loan balance does not exceed the limit. (See Section 4.03 for Accessibility loan exception.)

4.17 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 Fix-up Fund Note or paid from loan proceeds.
- 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.
- Seller is required to verify the legal description of the subject property, the Borrower's ownership interest, and any existing liens. Title investigation may be conducted by the Seller through documentation contact with the County Recorder's Office/Registrar of Titles, or with an Owner's and Encumbrances report.
- 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 Fund Note or paid from loan proceeds.

4.18 Non-Complying Loans

Minnesota Housing shall have 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 noncomplying 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.

4.19 Repurchase of Loans

Minnesota Housing may, at its option, tender any loan to the Seller 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 or condition set forth in the Participation Agreement and this Procedural Manual.

Upon written notice of repurchase by Minnesota Housing, 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, and/or otherwise limit the Seller's Participation Agreement with Minnesota Housing.

Chapter 5 – Special Assistance Program Requirements

5.01 Community Fix-up Fund

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

- Non-Prime Loan Initiative Requirements:
 - Seller must apply normal and prudent non-prime underwriting standards;
 - Borrowers must have completed or currently be participating in Seller arranged budget counseling programs;
 - Lender or community partner fees for budget counseling and rehab advising services are considered eligible improvement costs.
- Discount Loan Initiatives:
 - Provides lenders with the ability to offer alternative interest rates under the Community Fix-up Fund Loan Program using leveraged funds to buydown the current program rate.
 - Minnesota Housing reimburses lender for loan principal and processing fee, and loan is serviced at rate and payment amount indicated on Fix-up Fund Note.
- Value Added Services:
 - Lenders provide value-added services or partner with non-profit or governmental organizations offering value-added services to address community needs.

Chapter 6 – Commitment/Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program and/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.

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 HDS SF Web Application.

Individual Commitments are to be considered as “forward commitments” by Seller. It is expected that the loan will be submitted to gain a Purchase Approval status via the HDS SF Web Application.

6.01 Requesting a Commitment

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

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

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

Loans must meet eligibility requirements and gain a status of Purchase Approval via the HDS SF Web Application 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 is submitted via the HDS SF Web Application to qualify.
- Any qualifying commitment change will not alter the commitment period of the original commitment.
- A change of Borrower or property on the commitment will not be allowed.
- An increase in the loan amount will be allowed if funds are available.

6.03 Canceling a Commitment

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

6.04 Transfer of Individual Commitments

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:

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

6.05 Duplicate Borrower Commitments

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 will be the basis for the loan purchase.

A Lender Certificate detailing purchase transactions details will be available only via the HDS SF Web Application.

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 Seller for any funds to be returned or disburse additional funds to 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, prior to requesting Minnesota Housing loan approval via the HDS SF Web Application;
- Loans must be current as to monthly payments;
- 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 the 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 2nd Mortgage form detailing specific documentation/delivery requirements. Seller must fully execute and deliver documents within designated timeframes. In addition, Sellers must specifically warrant the following:

- Seller has obtained, and reviewed, applicable documentation to determine compliance with all Minnesota Housing requirements and industry standard regulations and requirements;
- Seller has properly executed the Fix-up Fund Note bearing the simple interest rate on the Individual Commitment; and
- Seller has reviewed both the Fix-up Fund Note and mortgage to ensure appropriate signatures have been obtained and duly notarized.

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

7.03 Signature Requirements

Fix-up Fund Note and Credit Application

- The Borrower(s) must sign the Fix-up Fund Note and the Credit Application as Borrower(s).
- If the Borrowers' spouse or any other resident(s) of the household with ownership interest are included in qualifying the loan, those persons must sign the Fix-up Fund Note and Credit Application as 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

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

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

Chapter 8 – Servicing

8.01 Servicing

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

8.02 Delivery of Loans to Servicer

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 the Minnesota Housing purchase of the loan.

8.03 Assumption/Due-On-Sale

Loans are not assumable and are due on sale or transfer of the title to the property to any person/entity other than the original Borrower.

Appendix

[Definitions](#)
[Forms List](#)
[Process Guide](#)

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 Fund 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.
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: A. The Borrower; or, B. A maker of the Fix-up Fund 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.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Minnesota Housing Program Eligibility Income	Income used to meet the requirements of this Procedural Manual.

Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Seller	A lender under contract to participate in Minnesota Housing programs.

Forms List

Credit Application
Homeowner Information
Income Eligibility Calculation Worksheet
Loan Transmittal 2nd Mortgage
Fix-up Fund Note

Process Guide

This guide is a supplement to the Minnesota Housing Fix-up Fund Program Procedural Manual. All policies and processes contained in the Minnesota Housing Fix-up Fund Program Procedural Manual must be followed.

The contents of this guide cover a number of Minnesota Housing eligibility guidelines, but do not contain all the information necessary to originate a loan for sale to the Minnesota Housing Finance Agency.

All loans must be processed following industry standard practices and must meet the underwriting guidelines of the Seller that originates the loan.

Origination

- Obtain a completed Minnesota Housing Credit Application

System:

- Select program using *Program Choice*;
- Enter appropriate information, making adjustments as needed (from compliance error messages), and
- Submit to gain commitment for loan funds and interest rate.

Minnesota Housing Program Eligibility/Underwriting

- Confirm borrower eligibility
- Borrower meets lender's underwriting requirements
- Minnesota Housing income limits
- Principal Residence Requirement (2.06)
- Obtain and review the borrower's credit report: (4.07)
- Calculate the amount of monthly debt (for use in ratio calculation);
- Credit history and scores establish the borrower's willingness to repay debts; and,
- Explain, document and provide compensating factors for any adverse information on the credit report.
- Obtain and Review verification of Borrower Eligibility Income (2.07)
- Establish Borrower income eligibility (Use Income Eligibility Calculation Worksheet)
- Use income verification to establish borrower's ability to repay the debt
- Calculate Minnesota Housing Ratio requirement. (4.07)

- Confirm property eligibility (3.01)
 - Obtain the correct legal description of the property as well as the correct names of the owners and verification of all outstanding liens against the property. (*An Owners and Encumbrances Report will verify this information*)
 - Determine the current value of the property by using *any one* or a combination of the following methods:
 - Obtain a property tax statement
 - Prepare a current Lender's Market Analysis
 - Use a realtor's market analysis
 - Obtain an existing appraisal dated not more than 6-12 months prior to the loan closing date.
 - Calculate LTV and confirm it meets Minnesota Housing program guidelines. (3.04)
 - 50% of the proposed loan amount may be added to the property's established market value to determine the after improved value.
 - LTV is calculated by dividing the total amount of the loan by the value of the property.
 - CLTV (combined loan-to-value ratio) which is the total of all liens divided by the property's after improved value may not exceed 110%.
 - Collect and review labor bids and materials estimates to establish: (4.06)
 - Cost of improvements
 - Eligibility of improvements
 - Determine whether the homeowner will be performing any labor and if so, confirm it meets policy guidelines. (4.09)

System:

- Retrieve Commitment and enter required information, making adjustments as needed (from error messages).
- All information except the closing date can be entered and qualified prior to "purchase Approval" by HDS SF Web Application.
- Generate Fix Up Fund Loan Program Note.

Closing

- Execute required documents:
- Fix-up Fund Note (Sections 2.03, 4.10, 4.11, 7.02)
- Mortgage (2.08, 4.07)
- Assignment of Mortgage
- Confirm Ownership/Title Requirements (2.05)
- Provide notice of loan sale and servicing transfer advising Borrower of Servicer and address to which monthly payments are to be sent

- Provide Right of Rescission

System:

- After loan is closed, retrieve Commitment and enter loan closing date, submit to gain "Purchase Approval" on the loan.
- The Purchase view will show payment details and funds will be received in two business days!

Post Closing/Delivery

- Deliver to Minnesota Housing
- Deliver to Servicer (8.02)
- Submit the mortgage and assignment to the County for recording

System:

- Track submission deadlines for final documents
- Retrieve the loan record and Fix-up Fund Note deadlines and required corrections.