



Minnesota Urban
and Rural Homesteading
(State Funded) Program
Procedural Manual

December 2010

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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 created the Minnesota Urban and Rural Homesteading (MURL) Program to provide homeownership opportunities to Borrowers who will assist in stabilizing declining neighborhoods.

Procedural Manual

This Procedural Manual sets forth for Administrators the terms and conditions under which Minnesota Housing will award Grant funds to Administrators to administer the MURL Program.

The Minnesota Urban and Rural Homesteading Program

The MURL Program is designed to arrest or prevent the spread of blight through the preservation of existing, dilapidated single family housing by providing a financing mechanism to acquire and rehabilitate such housing. Homes are sold to At-Risk Borrowers, who agree to follow a "good neighbor" policy, via an interest-free Contract for Deed.

Chapter 1 – Partner Responsibilities/Warranties

1.01 Procedural Manual

This Procedural Manual, the Minnesota Housing Lead Based Paint Guidebook and any subsequent changes or additions is a supplement to the Participation Agreement executed between Administrators 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:

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

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

1.02 Evidence of Misconduct Referred to Attorney General

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

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

If, after a Contract for Deed is executed, an Administrator discovers any material misstatements or misuse of the Eligible Property by the Borrower or others, the Administrator shall promptly report such discovery to Minnesota Housing.

1.03 Compliance with Privacy Statutes

The Minnesota Government Data Practices Act:

- Requires the Administrator to supply the Borrower with the Tennessee Warning and the Privacy Act Notice when requesting private data; ¹ and,
- Governs when the disclosure of the Borrower's social security number is required.

Note: Only the Borrower's name, address and amount of assistance received is public data and may be released.

1.04 Unauthorized Compensation

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

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

1.05 Minnesota Housing Due Diligence Audit Guidelines and Monitoring Requirements

The Administrator is required to keep on file a complete copy of all documents for each Project completed and Contract for Deed originated.

With reasonable notice to the Administrator and/or the Borrower, Minnesota Housing reserves the right to make site visits or conduct an audit at any stage of the process, from acquisition through the term of the Declaration of Covenants and/or Contract for Deed, whichever is longer.

Monitoring

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

- Physical inspection of Eligible Properties; and
- Verification of accounting of program funds and project files.

¹ Administrators who are Governmental Entities shall use the form approved by their "Responsible Authority", as defined in Minnesota Government Data Practices Act § 13.02, Subd. 16. Other Administrators shall provide a Tennessee Warning and Privacy Act Notice and may use Exhibit #1 to comply with this requirement.

Audits

Project files may be requested to be forwarded to Minnesota Housing for review. A minimum of 10% of all Projects completed will be audited.

Audited files are reviewed for:

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

1.06 Participation Term

Upon execution of the Participation Agreement, the term of Administrator's participation in the MURL Program shall be for the period designated in the Participation Agreement.

1.07 Termination of Administrator Participation

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

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

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

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

1.08 Representations and Warranties

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

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act and any applicable regulations and orders thereunder;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Law (Title VIII);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Records Retention - Minnesota Statutes Chapter 58.14; Subd. 5
- Americans with Disabilities Act, 42 U.S.C.A. Section 12.101;
- Internal Revenue Code of 1986, Section 6050H;
- Real Estate Settlement Procedures Act of 1974; and,
- Housing Quality Standards, 24 CFR Part 982.401.

In addition to the above warranties and representations, Administrator:

- Will fully comply with all terms and conditions in the Participation Agreement and this Procedural Manual, unless prior written approval is obtained from Minnesota Housing;
- Will review all applicable documentation to determine compliance with all Minnesota Housing requirements;
- Will maintain adequate capital and trained personnel for the administration of the MURL Program;
- Will maintain adequate insurance on its employees in the form of a Fidelity and Forgery Bond;
- Will supply written proof of this coverage to Minnesota Housing upon request;
- Is a political subdivision, nonprofit entity, housing and redevelopment authority or other organization that has as a primary purpose the provision or development of affordable housing for low and moderate income households in Minnesota;
- Will not assign any agreements executed between an Administrator and Minnesota Housing without prior written approval from Minnesota Housing; and
- Has legal authority to transact business in the State of Minnesota.

1.09 Administrator Compensation

An Administrator will be paid a developer's fee of 10% of the total Grant by Minnesota Housing.

In order to reduce the total development cost associated with the purchase and rehabilitation of an Eligible Property, an Administrator may receive discounts from the seller, builder, remodeler, contractor, or supplier.

Note: Discounts must be considered normal and do not constitute a kickback, commission, rebate or compensation to the Administrator for services or products rendered. Any discounts that exceed the norm should be documented as a charitable contribution by the representative of the seller, builder, remodeler, contractor, or supplier providing the discount.

1.10 Local Neighborhood Advisory Board

The Administrator must establish a Local Neighborhood Advisory Board (Advisory Board) composed of volunteer residents from the Designated Area. Through outreach to the community, the Administrator must ensure the Board's composition reflects the neighborhood's racial diversity.

The Advisory Board is responsible for:

- Making recommendations to the Administrator about properties that may be acquired within the Designated Area;
- Making recommendations as to the selection of Borrowers; and,
- Assisting the Administrator in providing ongoing support to eligible Borrowers.

If the Administrator provides private data on individuals to the Advisory Board to aid their recommendation of Borrowers, the following procedures must be followed to protect the data:

- Provide only the data relevant to potential Borrower consideration;
- Never provide social security numbers;
- Distribute necessary information at the meeting and collect it when the meeting has concluded;
- If note taking is permitted, collect all notes at the meeting's conclusion; and,
- Require each member of the Advisory Board to sign an *Acknowledgment of Responsibilities Regarding Private Data* and retain the signed Acknowledgment. See Exhibit #2.

1.11 Repayment/Revolving Loan Account

The Administrator must repay all MURL Program Grant funds advanced to it to the extent required by the Participation Agreement. Repayment of Grant funds may be deferred if the Administrator establishes a separate Revolving Loan Account into which all Contracts for Deed repayments, sales proceeds of Eligible Properties or other recaptured Grant funds are deposited.

If an Administrator elects not to establish a Revolving Loan Account, then repayment of Grant funds shall be paid to Minnesota Housing in annual installments, evidencing the amount of Contract for Deed principal payments, at the time of the Annual Report.

1.12 Administrator Use of Revolving Loan Account Funds

Administrators may use the funds contained in the Revolving Loan Account as follows:

- To rehabilitate and maintain eligible properties;
- To bring into compliance with local code, any eligible properties returned to the Administrator due to Default, deed-in-lieu of foreclosure, foreclosure or abandonment;
- To pay a developer's fee of up to 10% of total development costs resulting from either of the above activities; or
- To pay any debt to remove a lien placed against an Eligible Property due to an Emergency Repair provided that the lien complied with Section 5.12 of this Procedural Manual. A developer's fee may not be charged by the Administrator to the Revolving Loan Account for the removal of said lien.

During the servicing phase the Administrator may use the Revolving Loan Account to pay for any documented MURL Program related administrative costs incurred during the program year provided an itemized list of expenses for said costs is submitted to Minnesota Housing as part of the Annual Report due by March 31st of each calendar year. All administrative costs submitted to Minnesota Housing must be certified as accurate by either the Executive Director or the Chief Financial Officer of the Administrator.

Note: Any and all use of funds from the Revolving Loan Account must be fully documented.

Chapter 2 - Borrower Eligibility

2.01 Borrower

Individuals are eligible to be Borrowers only if individuals are:

- Considered "At Risk":
 - Homeless;
 - Receiving public assistance; or,
 - Otherwise lacking the ability to meet traditional mortgage industry underwriting standards;
- First time homebuyers; and,
- In compliance with all other requirements of this Procedural Manual.

Note: The Administrator may establish other "At Risk" requirements, as delineated in the Administrator's Application that must be applied to all applicants.

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 Borrower Selection

Administrator must establish and maintain a Borrower selection process. When accepting Applicants, the Administrator:

- Must use the Borrower Application provided by Minnesota Housing and,
- May require additional information from the Applicant in order to meet the established Borrower selection process.

2.04 Unauthorized Compensation

Borrower shall not receive:

- Kickbacks;
- Rebates;
- Discounts; and/or,
- Compensation from any party to the transaction.

2.05 Prior Homeownership - Three-Year Requirement

Borrowers must be first-time homebuyers. A Borrower may not have had an ownership interest in a Principal Residence at any time during the three year period prior to the date of execution of the Contract for Deed. This requirement applies to any individual who will have an interest in the Contract for Deed, and will have a present ownership interest in the Eligible Property being financed.

Ownership Interest in a Principal Residence includes:

- A fee simple interest;
- An individual tenancy, joint tenancy, a tenancy in common, or a tenancy by the entirety;
- The interest of a tenant shareholder in a cooperative;
- A life estate;
- A leasehold estate or a leasehold estate subject to a Community Land Trust;
- A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;
- An interest held in trust for the Borrower (whether or not created by the Borrower) that would constitute a present ownership interest if held directly by the Borrower;
- Vendee interest in a contract for deed; or
- An ownership interest in a mobile home that is taxed as real estate.

Interests that do not constitute an Ownership Interest in a Principal Residence include:

- An ordinary lease with or without an option to purchase;
- A mere expectancy to inherit an interest in a Principal Residence;
- The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;
- An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property.

Required Documentation - Tax Returns

- To verify that the Borrower meets the three-year requirement, the Administrator must obtain copies of signed federal income tax returns filed by the Borrower for the three years immediately preceding execution of the Contract for Deed. The Administrator should examine the tax returns and the credit report for any evidence that the Borrower may have claimed deductions for property taxes or mortgage interest deductions on a primary residence.

- The Borrower may also provide the Administrator with an affidavit that he/she was not required to file an income tax return during one or all of the preceding 3 years and did not own a home during that period.

2.06 Principal Residence/Occupancy Requirements

Each Borrower who purchases a home under the MURL Program must occupy the Eligible Property as their Principal Residence within 60 days following the closing of the Contract for Deed and continue to occupy it as their Principal Residence for the full term of the Contract for Deed.

If the homeowner no longer resides in the property as their Principal Residence prior to the Contract for Deed being paid in full, the Administrator must take appropriate steps to cancel the Contract for Deed.

2.07 Income Eligibility and Annual Recertification

The Administrator may establish income limits for the MURL Program, which they deem appropriate for a particular Designated Area; however, the Borrower's Gross Annual Projected Household Income may not exceed 60% of the greater of state or area median income. Income limits are listed on Minnesota Housing's website. Gross Annual Projected Household Income is before taxes or withholdings, less any allowable medical expenses.

Gross Annual Projected Household Income includes, but is not limited, to projected income from:

- Salary, commissions, bonuses, tips, earnings from part-time employment, earnings from self-employment;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation, sick pay;
- Any of such aforementioned benefits received by parents on behalf of minor children;
- Net rental income from all sources when a rental agreement (lease) has been signed between the Borrower and renter, if the Borrower has rented out a room in the Eligible Property;
- Actual Income from any family or non-family members living in the household without benefit of a rental agreement;
- Income received from business activities or investments;
- Alimony, child support;
- Estate or trust income;
- Seasonal employment income;
- Ongoing educational grants; and
- All other miscellaneous income.

Note: On the date of Contract for Deed execution, the Borrower's Gross Annual Projected Household Income must be sufficient to allow at least 25 percent of that income to pay monthly installments of real estate taxes, hazard insurance premiums and principal reduction. Financial counseling is required to ensure compliance with this requirement.

- All sources of income must be calculated and verified in accordance with the Income Eligibility Calculation Worksheet provided by Minnesota Housing. The Income Eligibility Calculation Worksheet and copies of verification documents must be retained in the homeowner's file.
- The Administrator must re-verify the household income at the end of each year. This verification is based on expected income (from whatever source derived) for the next 12 months, of all residents (age 18 and older) of the Borrower's household. The monthly payments under the Contract for Deed may be adjusted with any changes in income.
- The Administrator must also recalculate and verify the Borrower's Gross Annual Projected Household Income each time gross household income increases or decreases by ten percent (10%) or more. It is the Borrower's responsibility to inform the Administrator when an increase or decrease in income occurs.

2.08 Borrower Education Counseling

Qualified Borrower Education counseling is required for Borrowers prior to signing a Contract for Deed to purchase an Eligible Property.²

Borrower education counseling should include a financial counseling component to ensure the Borrower has developed a manageable budget that will allow the Borrower to meet the minimum payment requirements outlined in Section 2.07.

A Certificate of Completion of Qualified Borrower Education must be received by Administrator and maintained in the Borrower's file.

² See the Minnesota Homeownership Center's website at: www.hocmn.org for Qualified Borrower Education course availability.

Chapter 3 - Property Eligibility

3.01 Designated Area

The Designated Area is the area indicated in the Administrator's Application. The Administrator shall select and acquire Eligible Properties within the Designated Area.

3.02 Eligible Properties

An Eligible Property is a single family detached residential property, located within the Designated Area, that is vacant, condemned, abandoned, or identified as desirable for purchase by the Administrator which, if rehabilitated or replaced, will prevent or arrest the spread of blight.

An eligible property may also include an existing property that is currently being held by an Administrator provided such property was formerly:

- Vacant; or,
- Condemned; or,
- Abandoned or foreclosed; and,
- Has since been rehabilitated; and,
- Will otherwise meet all program requirements in this Procedural Manual.

3.03 Ineligible Properties

Properties **not** eligible for financing are as follows:

- Properties containing two or more units;
- Condominiums;
- Townhouses within a planned unit development;
- Mobile Homes;
- Properties that are intended to be an investment property;
- Properties that are intended for recreational homes;
- Properties where a portion of the residence is specifically designed for commercial use; or
- Properties where more than 15% of the total area of the residence is used in a trade or business (except for in-home day care facilities where no more than 49% of the total area may be used).

3.04 Cost Limitation

The total cost of acquiring and rehabilitating the Eligible Property is limited to 90% of the maximum area acquisition cost under Minnesota Housing's home mortgage programs. Total development cost limitations can be found on Minnesota Housing's website. Total costs include, but are not limited to:

- Closing costs;
- Development costs; and,
- Other costs associated with the development of an Eligible Property.

3.05 Development Costs

Development Costs may include, but are not limited to:

- Architectural, engineering or related professional services required to prepare plans, drawings, specifications, or work write-ups;
- Eligible rehabilitation improvements;
- Costs to process the financing for a Project, such as:
 - credit reports,
 - fees for the title evidence,
 - fees for recordation and filing of legal documents,
 - building permits,
 - attorney fees,
 - private appraisal fees,
 - fees for an independent cost estimate; and,
 - builder or developer fees;
- Costs of any Project audit that Minnesota Housing may require with respect to the development of the Project;
- Costs to provide information services such as affirmative marketing and fair housing information to prospective homeowners; and,
- Staff and overhead costs directly related to carrying out a Project, such as:
 - preparation of work specifications;
 - Contract for Deed processing;
 - Inspections; and,
 - Any other services related to assisting Borrowers.

3.06 Title Examination Requirements

At the time an Administrator acquires title to an Eligible Property, clear and marketable title to the property must be established using an attorney's legal title opinion or a title insurance policy.

Chapter 4 – Rehabilitation Eligibility

4.01 Rehabilitation

The Eligible Property should not require such extensive rehabilitation that the Administrator would be required to hold the property for an extended period of time before it could be sold to a Borrower.

4.02 Scope of Work and Cost Estimates

The Administrator shall prepare a Scope of Work based upon an initial inspection of a property that will be the basis for bids from contractors.

The Administrator should have the capacity to estimate the cost of essential work so they can evaluate the feasibility of rehabilitation and judge the reasonableness of bids from contractors.

4.03 Selection of Contractors

- At least two competitive bids should be received for the proposed improvements.
- If only one bid is received, it must be supported by written documentation indicating the bid is reasonable. Written documentation may include comparative bids from similar activities or estimates created through the use of cost estimating software.
- The Administrator must track the bids solicited, received and accepted using the Bid Summary Sheet provided by Minnesota Housing.
- Contractors must supply a copy of their license or a written explanation of why they are exempt.
- All information collected must be kept in the Administrator's file.

4.04 Sworn Construction Statement and Lien Waivers

General contractors are required to execute a Sworn Construction Statement.

Administrators must obtain Lien Waivers for all work performed and all materials supplied by:

- The general contractor(s);
- Subcontractor(s); and,
- Materials supplier(s).

Upon completion of construction, the Administrator and general contractor(s) must execute the Completion Certificate provided by Minnesota Housing.

4.05 Housing Quality Standards

At the time of sale of the Eligible Property rehabilitation improvements must, at a minimum, bring the Eligible Property to Housing Quality Standards as established in 24 CFR Part 982.401.

4.06 Lead Based Paint

Administrators are required to strictly follow and satisfy all requirements in the Minnesota Housing Lead Based Paint Guidebook which is incorporated into this Procedural Manual by reference.

4.07 Eligible Improvements and Building Code Compliance

Rehabilitation improvements must be permanent general improvements made in compliance with all applicable state, county and municipal health, housing, building, fire prevention, and housing maintenance codes, or other public standards.

Permanent general improvements include:

- Additions;
- Alterations; and,
- Renovations or repairs that preserve or improve the basic livability, safety, energy efficiency, utility or value of the property or provide for better accessibility for handicapped persons; and,
- Construction or rehabilitation of reasonably sized garages.

Note: Improvements must be of a similar quality to similar unit types in the Designated Area.

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

In areas where there is no local building code or where the state building code has not been adopted, the Administrator must ensure that rehabilitation improvements are completed by licensed contractors.

Improvements to existing garages are an eligible improvement only to bring the garage to current codes as previously listed.

4.08 Ineligible Improvements

Ineligible improvements include but are not limited to:

- Luxury improvements such as the construction of a swimming pool, outdoor hot tub, etc.
- Improvements that do not become a permanent part of the real property such as freestanding refrigerators, stoves, etc.;
- Permanent general improvements of a type or quality exceeding that customarily used in the locality for properties of the same general type as the subject property; and,
- Improvements for commercial use.

Chapter 5 – Contract for Deed Eligibility

5.01 Contract for Deed

The Administrator sells/conveys title to the Eligible Property to the Borrower using the current Contract for Deed document developed by Minnesota Housing. The Administrator may access this document on Minnesota Housing’s website.

The Contract for Deed must be interest free **and** a copy of the **Good Neighbor Policy** must be attached to it.

The Administrator must record the Contract for Deed as follows:

- Abstract Property – Office of the County Recorder; or,
- Torrens Property – Office of the County Registrar of Titles.

Recording of the Contract for Deed must take place within 4 months of the date of execution of the Contract for Deed.

5.02 Closing Costs and Prepaid Expenses

Closing costs and prepaid expenses must be included in the Contract for Deed amount. These costs **may not** be paid in cash at closing by the Borrower.

5.03 Sale Price Limits

- The Fair Market Sales Price to the Borrower shall be the market value.
- Market value shall be determined using an appraisal conducted by a Qualified Appraiser.
- The appraisal shall reflect market value either after completion of rehabilitation or subject to the completion of rehabilitation.

5.04 Contract for Deed Term

The term of the Contract for Deed may not exceed 30 years (360 months).

5.05 Application of Payments

Payments made under the Contract for Deed, whether they be monthly payments or some other form of payment, shall be applied in the following priority:

- First to any amounts that have been advanced by Administrator, i.e.: arrearages in taxes and insurance;
- Second to installments of real estate taxes and assessments;

- Third to installments of all insurance premiums; and,
- Finally to the payment of the principal amount of the debt incurred under the Contract for Deed.

If, after re-verification and recalculation of Borrower's Gross Annual Projected Household Income, the income is not sufficient to cover at least the amount required for the monthly escrows of real estate taxes, assessments and hazard insurance, then the Administrator will be responsible to pay those amounts on behalf of the Borrower until such time as the Administrator declares the Borrower to be in Default under the Contract for Deed. These amounts will be added to the outstanding unpaid principal balance of the Contract for Deed.

5.06 Prepayment

A Borrower has the right to fully or partially prepay the Contract for Deed at any time without penalty. Any partial prepayment shall be applied using the priority set in Section 5.05. Partial prepayment shall not postpone the due dates of any future installments to be paid by the Borrower or change the amount of such installments.

5.07 Monthly Payment

A Borrower's failure to pay the monthly installments required under the Contract for Deed shall be considered a Default under the Contract for Deed.

5.08 Forbearance

At Administrator's discretion and upon approval by Minnesota Housing, the Borrower and the Administrator may mutually agree to a period of Forbearance.

Forbearance of the monthly payments is allowed only in the event of:

- Substantial or total loss of income;
- Loss of employment;
- Injury; and/or,
- Any similar event, which severely impacts the Borrower's ability to make the required payments.

The period of Forbearance shall be for three months, or such other time agreed upon by the Administrator and the Borrower. If at the end of the period of Forbearance the Borrower is still unable to pay the required payments, the Administrator may either cancel the Contract for Deed or extend the Forbearance.

5.09 Hazard Insurance Requirements

A Borrower must maintain hazard insurance on the Eligible Property for as long as the Contract for Deed is outstanding, which must:

- Be effective on the date of the Contract for Deed;
- Protect against loss by fire, extended coverage perils, vandalism, malicious mischief and, if applicable, furnace explosion;
- Be in an amount no less than the original amount or the outstanding balance of the Contract for Deed;
- Be issued by an insurance provider licensed to do business in the State of Minnesota and acceptable to the Administrator; and,
- Provide for not less than 10 days of written notice to the Administrator before cancellation, non-renewal, termination or change in coverage.

The Borrower shall provide a duplicate original Policy of or Certificate of Hazard Insurance coverage.

5.10 Flood Insurance Requirements

An Eligible Property located in a Special Flood Hazard Area must have adequate flood insurance coverage when the Contract for Deed is executed.

The coverage must be maintained for as long as the Contract for Deed is outstanding or until a remapping of a flood zone results in the property no longer being in a Special Flood Hazard Area.

The Borrower shall provide a duplicate original Policy of or Certificate of Flood Insurance coverage.

5.11 Liability Insurance

A Borrower shall, at their expense, procure and maintain liability insurance against claims for bodily injury, death and property damage occurring on or about the Eligible Property in amounts reasonably satisfactory to the Administrator and naming the Administrator as an additional insured.

5.12 Home Improvements and Liens

A Borrower may not make any improvements to the Eligible Property in an amount in excess of \$2,000.00 without prior written approval from the Administrator.

A Borrower may not encumber the Eligible Property in any way that will constitute a lien or claim against the Administrator's interest in the Eligible Property, except when an Emergency Repair is necessary.

A Borrower needing an Emergency Repair may be exempt from this prohibition with prior approval from Minnesota Housing and use of an

approved Minnesota Housing Home Improvement Program including: the Rehabilitation Loan Program; and, depending on the Borrower's ability to repay, the Fix-Up Fund or Community Fix-Up Fund Programs. Use of non-Minnesota Housing financing products is prohibited.

- Emergency Repairs include, but are not limited to the following:
 - Failure of the heating, electrical, ventilation, or plumbing/septic system;
 - Roof leaks that have led to significant secondary damage to the interior of the home;
 - A structural failure of the foundation, walls, or roof of the home that could cause collapse;
 - An elevated lead blood level of a household resident due to lead paint;
 - An accessibility need that prevents a disabled person from inhabiting the home; or
 - Other emergency conditions that could cause the home to be or become uninhabitable will be considered by Minnesota Housing on a case-by-case basis.

The Borrower must apply to an eligible Minnesota Housing Home Improvement Program Lender and be approved through the selection process of the selected Home Improvement Program. The Home Improvement Program Lender must not be the Administrator who has a vendor interest in the Contract for Deed with the Borrower.

The Administrator must sign as an Accommodation Party for any Minnesota Housing Home Improvement Program liens against the property that result from an Emergency Repair. As such, the Administrator is liable to repay any debt not repaid by the Borrower in the event of Default.

A Borrower must pay the Administrator all amounts, costs and expenses, including reasonable attorneys' fees, incurred by the Administrator to remove any liens or adverse claims.

5.13 Resale Restrictions

Homes sold in the MURL Program are to remain affordable to Low Income Households for a period of 15 years. The 15 year period is enforced through the Declaration of Covenants. The Declaration of Covenants must be filed with the County Recorder's Office prior to the filing of the Contract for Deed; however, said filing may not occur more than 6 months prior to the execution and filing of the Contract for Deed with the Borrower.

5.14 Right of First Refusal

During the 15 year resale restriction period, the Administrator shall have the right of first refusal.

A Homebuyer may not and shall not at any time within the 15 year resale restriction period, assign, transfer, or sell the Eligible Property without first offering, in writing, to sell the Eligible Property to the Administrator, or Minnesota Housing, including their assigns or successor organizations. If either Administrator, or Minnesota Housing, elect to purchase the Eligible Property it must notify Homebuyer of such intent within thirty (30) days of receipt of the offer from Homebuyer, and it must complete the purchase within ninety (90) days of receipt of such offer. The Administrator or Minnesota Housing may purchase the Eligible Property at the fair market sales price, as determined by an appraisal conducted by a Qualified Appraiser. This option will not apply to a transfer of property to a surviving joint tenant or to an heir, if any, by reason of death of the Homebuyer.

The right of first refusal allows the Administrator during the resale restriction period to facilitate Contract for Deed financing for a new Homebuyer in order to meet the income requirements of the Declaration of Covenants.

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 such as:

- A maximum dollar amount an Administrator may commit, or,
- A maximum number of Individual Commitments an Administrator may commit.
- Administrator commits funds on a first-come, first-served basis. Fund balances are available by logging into the HDS SF Web Application.
- Individual Commitments are to be considered as “forward commitments” by Administrator.

6.01 Requesting a Commitment

Once the Administrator has determined that an Eligible Property meets the MURL Program requirements, an Individual Commitment of funds is requested through HDS SF Web Application. An Administrator may have only three active Individual Commitments at any given time. Once three Individual Commitments are reached, additional Individual Commitments will not be permitted until one of the Individual Commitments has been Purchase Approved.

Funds will be granted to Administrators on a per property basis. The Grant amount at the time of Individual Commitment will be based on the estimated total development cost, which includes:

- The actual purchase price of the home;
- The estimated rehabilitation improvements;
- The estimated development costs; and,
- The 10% developer’s fee.

Requests for an Individual Commitment that meets the eligibility requirements in this Procedural Manual will be authorized electronically.

Individual Commitments are valid for 720 days (24 months). All Individual commitments will be automatically cancelled at day 721. Grants must meet eligibility requirements and gain a status of Purchase Approval via HDS SF Web Application no later than the last day a commitment is still valid.

6.02 Modifying an Individual Commitment

- Any change to an Individual Commitment must meet eligibility requirements and be submitted via HDS SF Web Application to qualify.
- Any qualifying Individual Commitment change will not alter the commitment period of the original commitment.
- A change of property on the Individual Commitment will not be allowed.
- A change of the Grant amount will be allowed if funds are available.

6.03 Extending an Individual Commitment

An individual commitment may be extended at Minnesota Housing's sole discretion, only if the Administrator requests said extension in writing at least 30 days prior to the original commitment expiration date.

6.04 Canceling an Individual Commitment

Minnesota Housing requires the Administrator to cancel any Individual Commitment that will not be used for the specified Grant and return any grant funds Minnesota Housing may have disbursed.

6.05 Transfer of Individual Commitments

Administrator may not transfer Individual Commitments to another Administrator. Minnesota Housing staff may transfer an Individual Commitment under the following conditions:

- Administrator requests in writing a transfer of the Individual Commitment to a different Administrator and documents the reason,
- Original Administrator must transfer and/or assign case documents to the new Administrator.

6.06 Disbursement of Funds

MURL Program Grants will be disbursed in two (2) disbursements to the Administrator. Upon gaining an Individual Commitment via the HDS SF Web Application, 75% of the Grant amount will be disbursed. Upon gaining Purchase Approval via the HDS SF Web Application, the remaining Grant amount (including any required modifications to the original amount) will be disbursed.

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

Chapter 7 – Documentation Requirements

7.01 Loan Processing and Closing

All Grants submitted to Minnesota Housing for Purchase Approval must meet the following requirements:

- Eligible Properties must be rehabilitated and sold to Borrower on a Contract for Deed prior to Purchase Approval via the HDS SF Web Application;
- All documentation must be on the appropriate MURL Program forms and may not be altered in any way; and,
- All documentation must be complete, accurate and reviewed by the Administrator at the various and appropriate stages of the Grant.

7.02 Minnesota Housing Documentation and Delivery Requirements

Minnesota Housing provides the Grant Transmittal form detailing specific delivery requirements. Administrator must fully execute and deliver documents within designated timeframes.

In addition, Administrator must specifically warrant that all applicable documentation has been obtained and reviewed to determine compliance with all Minnesota Housing requirements.

Documentation not delivered to Minnesota Housing within the specified time frames, may result, at Minnesota Housing's discretion, in the Administrator being required to repay any disbursed amount of the Grant, or any such remedy as identified in this Procedural Manual. Minnesota Housing may also, at its discretion, extend the timeframes.

7.03 Records Retention

Administrator must retain any and all documents³ (including compliance with Minnesota Housing program guidelines) as may be required, including, but not limited to:

- Copy of purchase agreement and settlement statement demonstrating sale of Eligible Property to Administrator;
- Copy of deed or certificate of title showing title conveyance of Eligible Property to Administrator;

³ A licensee or exempt person must keep and maintain for 26 months the business records, including advertisements, regarding residential mortgage loans applied for, originated, or serviced in the course of its business. (MS 58.14, subd.5)

- Final Title Insurance Policy or Attorney’s Opinion demonstrating clear title;
- Records for all rehabilitation improvements including Scope of Work, bids and estimates, Sworn Construction Statement, lien waivers, change orders, inspections and completion certificates;
- Evidence that rehabilitation work meets state or local building code;
- Records that demonstrate compliance with the lead-based paint requirements pursuant to Minnesota Housing’s Lead Based Paint Guidebook;
- Copy of Applicant Tracking Form;
- Copy of Borrower Application;
- Fully executed copy of Tennessen Warning and Data Privacy Disclosure;
- 3 years Federal Income Tax Returns or approved alternative documentation demonstrating first time homebuyer status;
- Certificate of Completion for Homebuyer Education;
- Written verification of all major sources of income;
- Copy of Contract for Deed with Good Neighbor Policy and Lead Warning Statement;
- Copy of Declaration of Covenants;
- Copy of deed or certificate of title showing title conveyance to the Borrower upon satisfaction of Contract for Deed; and,
- All documentation relating to the use of the Revolving Loan Account funds.

7.04 Annual Reporting

Annual reporting will be required so that Minnesota Housing can track Revolving Loan Account balance and MURL portfolio information for each Administrator. Annual Reports will be due by March 31st of each calendar year and should be submitted using the forms found on Minnesota Housing’s website.

Chapter 8 – Servicing

8.01 Servicing of Contract for Deeds

Administrator shall service, or provide for the servicing of, the Contracts for Deed. In servicing the Contracts for Deed, the Administrator shall be responsible for:

- The collection of all payments due under the Contracts for Deed;
- Making all hazard insurance premium, real estate tax and assessment payments including any escrowing for such payments;
- Verifying the Gross Annual Projected Household Income of Borrowers; and,
- Conducting at least annual inspections of the Eligible Property covered by the Contract for Deed in order to ensure that such property is being properly maintained.

8.02 Collection of Payments

The Administrator is responsible for and shall collect, or cause to be collected, all amounts due under the Contracts for Deed. The Administrator shall deposit the amounts collected into the Revolving Loan Account, or make repayment to Minnesota Housing in accordance with Section 1.11.

If any payment due under a Contract for Deed is not received by Administrator within fifteen (15) days of the date it is due, the Administrator may collect from the Borrower, to the extent allowed by law, an additional late payment fee in an amount not to exceed four percent (4%) of the amount of the delinquent payment.

8.03 Escrow

The Administrator must set aside a portion of the payments made pursuant to the Contract for Deed to pay real estate taxes, hazard insurance premiums, flood insurance premiums and other assessments. The Administrator's escrow practices must comply with federal and state law.

The Administrator shall ensure payment of real estate tax payments, hazard insurance premiums, flood insurance premiums and other assessments are paid using the Contract for Deed payments it collects from the Borrower.

In the event that the amount of payments collected by the Administrator are insufficient to pay for real estate tax payments, hazard insurance premiums, flood insurance premiums and other assessments for the Eligible Property, the Administrator shall advance any such deficiency until such time as the Administrator declares the Borrower to be in Default under the Contract for Deed. Any advanced amounts should be added to the principal amount owed under the Contract for Deed for the Eligible Property.

8.04 Application of Payments

The Administrator or the Servicer designated by the Administrator must apply payments received pursuant to the Contract for Deed in the priority described in Section 5.05 of this Manual.

Appendix

Definitions
Forms List
Process Guide
Exhibits

Appendix

Definitions

The following terms shall have the meanings set forth unless an exception is clearly made in another section of this Procedural Manual to indicate otherwise.

Term	Definition
Administrator	The entity with which Minnesota Housing has a contractual relationship to implement the MURL Program.
Administrator's Application	The application submitted by the Administrator to Minnesota Housing outlining how the Administrator will implement the MURL Program and detailing how MURL Program funds will be utilized.
Applicant	An individual or household that completes an application to purchase an Eligible Property with financial assistance, and meets the requirements of, the MURL Program.
"At Risk"	A homebuyer who is homeless, receiving public assistance or otherwise lacking the ability to meet mortgage industry underwriting standards for traditional mortgage financing.
Bid Summary Form	Listing of contractors that were mailed bids, dates mailed, date received, and contractor selected.
Borrower	An eligible purchaser of a MURL home.
Contract for Deed	An interest-free contract for deed in a form to be provided by Minnesota Housing under which the Administrator will sell and transfer a rehabilitated Eligible Property to a Borrower.

Declaration of Covenants	A restrictive covenant running with Eligible Property in a form to be provided by Minnesota Housing, which will impose certain restrictions on all owners and purchasers of such property relating to the use and sale thereof and to insure that such property is maintained as affordable under the MURL Program requirements.
Default	Default is outlined in the Contract for Deed and includes, but is not limited to events such as: any form of title transfer; Borrower ceasing to occupy property as primary residence; Borrower encumbering property without Administrator & Minnesota Housing approval; Borrower failure to comply with recertification requirements, etc.
Designated Area	Area specified by the Administrator in which it may acquire, rehabilitate, and sell Eligible Properties under the MURL Program.
Eligible Property	A single family residential property, located within a Designated Area that is vacant, condemned, boarded up, or identified as desirable for purchase and rehabilitation by the Administrator, which if rehabilitated, may prevent or arrest the spread of blight.
Emergency Repair	Repairs to a property currently financed through the MURL Program and damaged as a result of an event beyond the Borrower's control or as necessitated by a systems or structural failure.
Fair Market Sales Price	The market value of a property as determined by a qualified appraiser.
Grant	A grant of funds from Minnesota Housing to the Administrator, on a per property basis, which is committed and disbursed through HDS SF WEB APPLICATION used to purchase and rehabilitate an Eligible Property.

Gross Annual Projected Household Income	The expected income (from whatever source derived) for the next 12 months, at time of (re)verification, of all residents (age 18 and older) of the Borrower's household. Gross Annual Projected Household Income is before taxes or withholdings less any allowable medical expenses.
HDS SF Web Application	The Single Family Mortgage Online System used by the Administrator to commit and receive disbursements for MURL Program Grants on a per property basis.
Household	A Borrower and any other residents who occupy a room or rooms constituting a Principal Residence.
Lien Waiver	A legal document that is executed by a contractor, subcontractors and material suppliers under which they relinquish any right they may have to place a lien on the property for work performed or materials supplied.
Local Neighborhood Advisory Board	The advisory board made up of volunteer residents from the Designated Area established by the Administrator.
Low Income Households	Households whose Gross Annual Projected Household Income is 60% of the greater of state or area median income. Income limits are listed on Minnesota Housing's website.
Minnesota Housing	Minnesota Housing Finance Agency.
Participation Agreement	The legal contract that is executed by Minnesota Housing and the Administrator, which allows for Administrator to participate in the MURL Program.
MURL Program	Minnesota Urban and Rural Homesteading (State Funded) Program.
Principal Residence	The property which the Borrower regularly occupies as their main dwelling place for at least nine months of the year.

Procedural Manual	This Minnesota Urban and Rural Homesteading (State Funded) Program Procedural Manual.
Project	The term used to describe the overall activities related to the use of Grant funds from the acquisition of the Eligible Property to the origination and servicing of the Contract for Deed.
Qualified Appraiser	An appraiser approved to conduct appraisals for the Federal Housing Administration, Veterans Administration, Fannie Mae or Freddie Mac.
Qualified Borrower Education	Borrower education classes offered by the Minnesota Homeownership Center.
Revolving Loan Account	An interest bearing account in which Contract for Deed repayments, sales proceeds or other recaptured MURL Grant funds must be deposited for use by the Administrator in accordance with the terms, conditions, and provisions contained in the Procedural Manual. Such account must be created and maintained in a bank situated within and authorized to transact the business of banking in the State of Minnesota.
Scope of Work	A detailed outline of the necessary rehabilitation work to be completed on the property.
Sworn Construction Statement	A sworn statement of fact made by a general contractor that lists all of the work to be performed on a Project, the subcontractors who will perform the listed work, material suppliers who will supply materials for the listed work, and the cost of each individual item of work and item of material that will be supplied.

Forms List

Annual Report – Contract for Deed Payment
Annual Report - Revolving Fund Account
Applicant Tracking Sheet
Bid Summary Sheet
Borrower Application
Completion Certificate
Contract for Deed
Declaration of Covenants, Conditions and Restrictions
Income Eligibility Calculation Worksheet
Lead-Based Paint Summary
Loan Transmittal - MURL
Participation Agreement

Process Guide

This guide is a supplement to the Minnesota Housing Minnesota Urban and Rural Homesteading (State Funded) Program Procedural Manual. All policies and processes contained in Minnesota Urban and Rural Homesteading (State Funded) 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 Contract for Deed for sale to the Minnesota Housing.

All Contracts for Deed must be processed following the Administrator's established Selection Process and must meet the guidelines of the Administrator that originates the loan.

Bidding and contracting the Work

- Create forms for developing a Scope of Work
- Create forms for preparing bids
- Accept/Reject Bids as necessary until all the rehabilitation work is represented by an accepted bid(s)
- Retain a Bid Summary Sheet in each file that indicates:
 - Entity invited to bid
 - Contractors selected.

Borrower Selection Process

Confirm Borrower meets Administrator's Selection process.

Origination

- Complete the application with the Borrower
- Explain to the Borrower the following:
 - Events of Default include but are not limited to:
 - Any form of title transfer;
 - Ceasing to occupy property as primary residence;
 - Encumbering property without Administrator & Minnesota Housing approval;
 - Failure to comply with recertification requirements, etc.
 - First time Homebuyer Requirement;
 - Occupancy Requirement;
 - Counseling Requirements;
 - Resale Restrictions;
 - Forbearance;
 - Income Recertification Process; and,

- Provide Borrower with Tennessee Warning/Privacy Act Disclosure.

System:

- Pre-Qualifying Assessment – Enter basic information and see programs offered by Minnesota Housing for which borrowers may qualify.
- Select program, enter appropriate information, making adjustments as needed (from error messages), and submit to gain commitment.
- Upon commitment, 75% of grant amount and administrative fee will be received in 2 business days.

Minnesota Housing Program Eligibility

- Confirm Borrower Eligibility (2.01 – 2.03)
 - Verify income (Use Income Eligibility Calculation Worksheet)
 - Income Verification is within 120 days prior to application date;
- Confirm Property Eligibility
- Confirm Rehabilitation Eligibility (Chapter 4)

Include recertification information with March 31st annual report to Minnesota Housing

Note: Administrator to pay portion of monthly taxes and hazard insurance if so indicated by recertification.

Closing

- Administrator closes Contract-for-Deed with borrower. (See Record Retention Requirements)
- Documentation Requirements (See Chapter 7)
- Record Contract for Deed (See Section 5.01)

System:

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

Post Closing / Delivery

- Documents Required (6.02) (See Loan Transmittal form)
- Document Delivery (See Loan Transmittal form)

Recertification of Income

- Complete recertification of each Borrower's income by April 1st of each year.
- Send reminder notice to Borrower 90 days prior to recertification. Reminder must:
 - Require Borrower to contact Administrator for recertification appointment within 30 days of receipt of reminder notice;
 - Outline all documentation required of borrower; and,
 - Indicating that failure to comply will result in cancellation of Contract for Deed.
- Send second notice on day 31 granting a 30-day extension to respond;
- Send 3rd and final notice at day 31 of extension period granting an additional 10 days to respond; and,
- Begin Cancellation of Contract for Deed if no response within the final 10-day period.

Exhibit 1

Combined Tennessee Warning and Privacy Act Notice

(Non-government Administrator)

Private data requested to enable processing of your application is legally required to determine if you qualify for participation in this Minnesota Housing Finance Agency (MHFA) program and to help MHFA manage the program.

Financial information, such as credit reports, financial statements and net worth calculations, are classified as private data on individuals by Minnesota Statutes 462A.065. You are not required to provide this information; but if you do not provide it, we will be unable to determine your eligibility for this program and approve your application. The information will be shared with the Minnesota Housing Finance Agency (MHFA) staff whose jobs require them to see it. The information may also be shared with a Local Neighborhood Advisory Board, which recommends home buyers to us. Where access to the data is authorized by state statute or federal law, it may be made available to others as so authorized.

Disclosure of your SSN for the purposes of verifying your income and credit is voluntary. However, if adequate verification of your income and credit is impossible without your SSN, we may be unable to determine your eligibility.

Your name, address and amount of assistance you apply for and receive are classified as public data under Minnesota Statutes 13.462; Subd. 2.

EXHIBIT 2

Acknowledgment of Responsibilities Regarding Private Data

Local Neighborhood Advisory Board for (Name of MURL Grantee)

As a member of the Local Neighborhood Advisory Board for the Minnesota Urban and Rural Homesteading (MURL) Program, I may be asked to review private data on individuals who wish to purchase a MURL home.

I understand the only data I may view that is public are the names of the individuals applying to purchase a MURL home, their addresses and the amount of assistance they may receive. All other data is private and is protected under the Minnesota Government Data Practices Act.

I agree that I will not take note of private data or alternatively, I agree to surrender any notes I may take to **(Name of MURL Grantee)** at the conclusion of each meeting.

I agree neither to disclose nor discuss with others outside the Local Neighborhood Advisory Board meeting, private data I may be asked to consider in evaluating Borrower applications.

Name of Local Neighborhood Advisory Board Member

Signature

Date