



Rental Rehabilitation Deferred Loan Pilot (RRDL) Program Guide

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Introduction

Mission Statement

The Minnesota Housing Finance Agency (Minnesota Housing) finances and advances affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

Background

Minnesota Housing was established by the 1971 session of the Minnesota Legislature to finance the construction and rehabilitation of housing for families of low and moderate income. In addition to providing financing for multifamily rental units, single family mortgage loans and home improvement loans and grants, Minnesota Housing participates in and administers other programs which assist in increasing or improving affordable housing for Minnesota residents.

Overview of Strategic Priorities

Minnesota Housing's current strategic priorities are to:

- Finance new opportunities for affordable housing.
- Preserve existing affordable housing.
- Prevent and end homelessness.
- Mitigate foreclosure impact through prevention and remediation.

The Rental Rehabilitation Deferred Loan Pilot Program (RRDL) Request for Proposal (RFP) will assist in carrying out Minnesota Housing's broad objectives of meeting Minnesotans' right to decent, safe, affordable homes and stronger communities by focusing on the preservation of existing affordable rental housing in Greater Minnesota.

Chapter 1 - Program Purpose and Background

On September 22, 2011, Minnesota Housing Board of Directors authorized staff to implement the Rental Rehabilitation Deferred Loan Pilot (RRDL) Program for a two year demonstration period. The funding source for rehabilitation of rental housing is state appropriations. The authority to develop the framework for the RRDL Program is found in MN Statute 462A.05, subdivision 14.

The purpose of the RRDL Program is to provide resources to rehabilitate existing rental housing in Greater Minnesota so that affordability is preserved and low and moderate income households have access to decent housing that is convenient to jobs, transportation, and essential services.

Minnesota Housing staff met with local stakeholders and funding partners to review the local needs and refine the goals of the RRDL Program. Staff understands that although some of the existing rental housing stock in Greater Minnesota may already be Affordable to the Local Workforce, this housing is potentially at risk of loss due to deferred maintenance and deterioration.

Minnesota Housing designed the RRDL Program as a demonstration based on a blend of the multifamily and single-family methods of distributing Economic Development and Housing Challenge Program funds. The pilot will target owners of smaller rental properties that would not be competitive in the Multifamily Consolidated Request for Proposals (Consolidated RFP) and may not have access to other funding resources. Since Minnesota Housing has not had previous experience with this new method of funds distribution for multifamily rehabilitation, staff has implemented a two year pilot program to determine if the model is an efficient and effective way to finance the rehabilitation of rental housing in areas of Greater Minnesota.

The RRDL Program will serve rental households in Greater Minnesota with incomes at or below the greater of 80% of state or area median income for a family of four not adjusted for family size. RRDL rent limits based on average workforce wages are provided to ensure housing is Affordable to the Local Workforce.

Chapter 2 - Application Process and Selection Standards

2.1 ACCESS TO FUNDS

RRDL Funds will be available once a year through a separate Request for Proposal (RFP) process. The RRDL Program will not be included in the annual Consolidated RFP.

RRDL Funds may finance rehabilitation activity of properties outside of the seven county metropolitan areas through either a Specific Project or Program Model approach (see section 2.2 for further clarification on these two approaches). Minnesota Housing will review all proposals submitted and will make funding recommendations for each proposal selected.

Funding requests may be adjusted based upon the number of applications received, the amount of funds available, and the distribution of funds throughout Greater Minnesota.

Among comparable proposals, preference will be given to applications that assist property(s) in areas of the state not assisted by HUD Participating Jurisdictions in HOME Entitlement areas.

Applicants may not concurrently apply for Consolidated RFP funding. Projects awarded RRDL funds will not be eligible for additional RRDL or Consolidated RFP funding for 5 years from the closing of the RRDL Loan.

2.2 FUNDING ACTIVITIES

RRDL may fund the following two types of activities:

A. A Specific Project

An Applicant may apply for funding for the rehabilitation of one specific property which they own or on behalf of an owner for which they will act as the processing agent. The Project proforma and the Scope of Work will be reviewed by Minnesota Housing in accordance with requirements outlined in Chapters 7 and 8.

B. A Program Model

An Applicant may submit a proposal to deliver a Program Model that is designed to provide rehabilitation activities to a number of properties in specific geographic areas as defined by the Applicant. Minnesota Housing encourages Applicants to be creative and innovative in designing a Program Model, including partnering or collaborating, when appropriate, and leveraging other rehabilitation resources to create the most significant impact possible.

An Applicant may submit one or more applications for Specific Project and/or Program Model activities.

2.3 ELIGIBLE ADMNSTRATOR APPLICANTS

Eligible Applicants that may apply to administer either a Specific Project and Program Model include:

- Housing & Redevelopment Authorities (HRAs).
- Community Action Programs (CAPs).
- Local Non-Profit Housing Providers.
- Units of Local and Tribal Governments.
- Joint Powers Board of two or more of the aforementioned entities.

2.4 LOAN LIMITS AND TERMS

Minnesota Housing will provide RRDL Funds as a 0% interest deferred loan.

The RRDL Loan will be non-recourse. The loan will be secured by a pledge of collateral through the recording of a mortgage on the property rehabilitated.

A. Loan Minimums and Maximums

- a. The minimum loan is \$25,000.
- b. The maximum loan per unit is \$25,000. However, for single family homes and duplexes, the maximum loan is \$35,000 per unit.
- c. The maximum loan is \$300,000 per Project.

B. Loan Terms

Loan Terms for a Specific Project

- a. The term of the loan will be 30 years or the remaining term of any senior debt in place at the time of closing of the RRDL loan, if longer.
- b. The loan will be structured as an end loan.

Loan Terms under the Program Model

- a. Loans under \$100,000 qualify for a minimum 10 year term.
- b. Loans of \$100,000 or more qualify for a minimum 15 year term.
- c. The loan may be extended to 30 years or for the remaining term of any senior debt in place at the time of closing of the RRDL loan. The owner must agree to maintain the use restrictions and report annually for the duration of the Effective Period.
- d. The loan may be structured as a construction loan or end loan.

Minnesota Housing may adjust the loan term based on requirements and conditions of other funding sources related to loan term.

The Effective Period begins on the date that the RRDL loan closes.

2.5 APPLICATION FOR FUNDS

The RRDL application materials and checklists are located on the Minnesota Housing RRDL Program Web Page:

<http://www.mnhousing.gov/resources/apply/RentalRehabilitationDeferredLoan/index.htm>.

Applicants will select either the Specific Project or Program Model checklist. All Application forms are available on the checklist through hyper links.

Applicants are required to submit:

- One original application.
- One photocopy of the original application.
- One CD with a copy all application materials.
- One completed Multifamily Common Application Form (RFP, HTC 1). Submit a MS Excel Template format via email to, mhfa.app@state.mn.us.

Please contact Lori Speckmeier at (651) 296-9538 or Mary Hieb at (651) 296-8185, or mary.hieb@state.mn.us if you are having technical difficulties or require assistance with accessing or submitting your RRDL Application for Funds.

2.6 SELECTION STANDARDS

All Application for Funds will be evaluated for project feasibility, owner capacity, and the extent to which it conforms to the greatest number of Minnesota Housing Threshold Requirements, Strategic Priorities, and Funding Priorities as outlined below. Minnesota Housing will also consider the extent to which the Application for Funds addresses the local priorities outlined by the Applicant.

2.7 THRESHOLD REQUIREMENTS

Applicants must satisfy the following threshold requirements:

A. Overall Feasibility

The following factors shall be considered in determining an Applicant's overall feasibility:

1. The nature and suitability of the Specific Project or Program Model.
2. Whether the proposed housing is needed in the market that is intended to be served, based upon population, job growth, and very low housing vacancy rates.

3. For the Specific Project, whether the rehabilitation costs are reasonable and for the Program Model, whether the administration fees and program budget are reasonable.
4. For Permanent Supportive Housing, whether the Applicant has secured long-term funding for the support services that address the special needs of the proposed targeted population.

B. Organizational Capacity

The following factors shall be considered in determining whether an Applicant has demonstrated sufficient organizational capacity:

1. The Applicant's purpose and mission.
2. The Applicant's related housing experience.
3. Whether the Applicant has successfully completed similar programs or projects or is partnering with other organizations that have successfully completed similar projects.
4. Whether the Applicant has strong current and expected ongoing capacity to administer the RRDL Program or complete the proposed Project Model.

Program Model Applicants must also provide the following additional information:

1. Satisfactory evidence that the Applicant has the approval of the governing body of the relevant political subdivision. Resolutions from relevant governing bodies are required as due diligence before Administrative Agreements are signed.
2. Satisfactory evidence that the Applicant has capacity to provide regional service, or will coordinate with other agencies to serve regional geographic areas.
3. Identification of staff who will be directly involved in various aspects of the RRDL Program and a description of their skills and experience.
4. Identification of outreach methods and a marketing plan for the RRDL Program; the marketing plan must not exclude any otherwise eligible Borrower from making an application and being considered eligible.
5. Indication of whether the organization intends to enter into a subcontract for any portion of the administration of the RRDL Program. All subcontractors must be approved by Minnesota Housing.
6. Applicants other than units of local government must submit either a copy of their Affirmative Action Certificate of Compliance from the State Department of Human Rights or a notarized letter indicating that their organization had not more than 40 full-time employees at any time within the previous 12 months.

7. Availability of other financial resources to provide additional assistance to developments or to assist in payment of RRDL Program delivery costs.
8. Projected RRDL Program administration costs the Applicant will charge borrowers.
9. Explanation of how the RRDL Program selection criteria and application process will provide rental housing outcomes that support local area markets and utilize existing infrastructure.
10. Explanation of the extent to which the proposed RRDL Program selection criteria will incorporate Minnesota Housing Funding Priorities identified in Section 2.9.
11. Satisfactory evidence that the applicant maintains adequate insurance for its employees, usually in the form of a Fidelity and Forgery Bond or other similar insurance providing employee dishonesty coverage.
12. Documented procedures for preventing conflict of interest with regard to the selection of applications or allocation of funds.

2.8 STRATEGIC PRIORITIES

A. Preservation of Existing Affordable Housing

In order to address the strategic priority of preserving existing affordable housing, preference is given to developments that:

- Preserve permanent affordable rental housing with long-term project-based federal subsidies that are in jeopardy of being lost.
- Preserve/Add supportive housing units.

Affordability of federally assisted rental housing may be driven by the underlying financing, operating subsidies to owners, direct subsidies to tenants, or through the existing rent structure. Such affordability may be at risk of loss due to one of the following three factors: expiring subsidies, physical deterioration or diminishing owner capacity.

2.9 FUNDING PRIORITIES

Among proposals that satisfy the selection standards set forth above, Minnesota Housing shall give priority to those proposals that best meet the greatest number of the following priorities:

A. Underserved Populations

The extent to which the proposal addresses the housing needs of Underserved Populations.

B. Linkages

The extent to which the proposed housing is located near jobs; transportation, including regional and interregional transportation corridors and transit-ways; recreation; retail services; social and other services; and schools.

C. Project Location

The extent to which the proposed housing increases or sustains the supply of affordable housing in counties that experienced job or household population growth from 2000-2010.

D. Reuse/Efficient Land Use

The extent to which the proposed housing maximizes the adaptive reuse of existing buildings and the use of existing infrastructure.

E. Leverage

The extent to which private investment and external sources are included as a funding source.

The Minnesota Housing Rental Rehab Loan (RRL) Program is considered an acceptable form of leverage and applicants are encouraged to pair these funding sources. The RRL Program offers:

- A 6% loan.
- Maximum term up to 15 years.
- \$10,000/unit up to a maximum of \$100,000.
- Income limit is 80% of the statewide median as determined for a household size of four, not adjusted by family size, by the HUD.
- No rent limits.

RRDL Loans are available through approved lenders statewide. A list of lenders is located at:

http://www.mnhousing.gov/idc/groups/public/documents/document/mhfa_011580.pdf

F. Long-Term Affordability

The extent to which the development ensures long term affordability evidenced by the sources and terms of financing, provision of rental assistance with an extended contract, and additional rent restrictions for a specified time period.

G. Economic Integration

The extent to which the proposed housing provides or maintains housing opportunities for households with a wide range of incomes and housing needs within a community or provides housing opportunities for a wide range of incomes within the proposed housing.

H. Cost Reasonableness

The extent to which the cost per unit is held as low as possible while not compromising the quality and sustainability of the proposed housing. Cost reasonableness includes maintaining low intermediary costs.

I. *Regulatory Cost Avoidance / Cost Reduction*

The extent to which the proposal identifies and includes cost avoidance or cost reductions from regulatory changes, incentives, or waivers by the local governing body.

J. *Site Suitability*

The extent to which the site and design of the proposed housing is suitable for the housing needs of the proposed tenants.

K. *Local Priority in Continuum of Care or Plans to End Homelessness*

The extent to which the proposal reflects locally determined priorities described in the Continuum of Care or Heading Home plan.

Chapter 3 – Processes and Responsibilities

Section 3.1 does not apply to Specific Project Applicants. All Applications must comply with Section 3.2 – 3.5.

3.1 PROCEDURES AND RESPONSIBILITIES FOR PROGRAM MODELS ONLY

A. Administrative Agreement

An Administrator will execute an Administrative Agreement outlining the legal relationship and responsibilities of the Administrator with Minnesota Housing.

The Administrative Agreement is labeled with a RRDL Agreement ID Number which is the unique identifier for the award. The Administrator must use this RRDL Agreement ID Number on all forms and correspondence to Minnesota Housing.

A contractual commitment between Minnesota Housing and the Administrator is effective upon receipt of a fully executed Administrative Agreement.

This Program Guide, including subsequent changes and additions, is a supplement to the Administrative Agreement executed between the Administrator and Minnesota Housing. It is incorporated into the Administrative Agreement by reference and is a part thereof as fully as if set forth therein at length.

Minnesota Housing reserves the right to:

- Alter or waive any of the requirements herein.
- Impose other and additional requirements.
- 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 Program Guide.

B. Administrative Agreement Term

The Administrator shall execute an Administrative Agreement, in form and substance acceptable to Minnesota Housing staff, within 90 days of the date of Minnesota Housing Board approval of the RRDL Program allocation and shall close all loans within 24 months from the date of the Board approval.

Minnesota Housing reserves the right to cancel the Administrative Agreement if it is not executed and returned to Minnesota Housing within 30 days of receipt.

The term of RRDL Funds availability to the Administrator shall be for the period outlined in the Administrative Agreement unless otherwise amended by Minnesota Housing.

Any RRDL Funds not used by the Administrator during the period outlined in the Administrative Agreement shall be repaid to Minnesota Housing in accordance with the terms and conditions outlined in the Administrative Agreement. Minnesota Housing, at its sole discretion, may extend the terms of Administrative Agreement.

C. *Administrative Subcontracts*

The Administrators may enter into written agreements with other entities for assistance with RRDL Program administration. Administrators must receive prior approval from Minnesota Housing before entering into subcontractor agreements. Regardless of such agreements, the Administrator:

1. Assumes full responsibility for a subcontractor's performance with respect to the RRDL Program. This includes adherence to the policies and procedures set forth in this Program Guide and any related documents.
2. Assumes full liability for all warranties and representations made to Minnesota Housing, regardless of who performs the actual work.
3. Requires all subcontractors to attend applicable RRDL Program workshops throughout the term of the subcontract.
4. Provides additional training and technical assistance to subcontractors as needed.
5. Provides RRDL Program updates, including amendments of this Program Guide, to the subcontractor.

D. *Disbursements*

Disbursement of RRDL Funds to the Administrator will occur as follows:

1. Minnesota Housing will set aside an allocation of RRDL Funds based upon the allocation amount approved by Minnesota Housing.
2. Upon execution of the Administrative Agreement and receipt of the Request for Funds form, Minnesota Housing will disburse a one time \$3,000 award to the Administrator to market and set up for the RRDL Program locally.
3. Minnesota Housing will advance funds to the Administrator or other entity approved by Minnesota Housing at the time of closing for each individual construction or end loan project.
4. Minnesota Housing will forward funds via Electronic Fund Transfer (EFT) Form or check.
5. Payment Holds:

Minnesota Housing may place disbursement payment holds on Administrators at its sole discretion. Reasons for payment holds include, but are not limited to:

- a. Missing or incomplete required reports or forms for any open award.
- b. Lack of progress completing Projects in an adequate timeframe.
- c. Critical issues (i.e. monitoring and/or audit findings) discovered by Minnesota Housing in current or past Administrator awards which must be resolved before additional funds are disbursed.

E. Requesting a Commitment

In order to obtain a commitment for an end loan or construction loan; the Administrator must submit a complete RRDL Loan Commitment/ Closing Checklist and Certification and the required documentation as requested. Once the documentation has been reviewed and approved, Minnesota Housing will issue a commitment and apprise the Administrator of the Minnesota Housing Project loan number (Development Number).

1. Commitments are valid for a maximum of 12 months for Construction Loan and maximum 14 months for End Loans. All commitments will be automatically cancelled at the end of that period unless approved by Minnesota Housing.
2. Loans must meet eligibility requirements and be closed no later than the last day a commitment is valid. The closing of all loans shall occur within 24 months from the adoption date of the applicable Minnesota Housing Board approval resolution, unless an extension is approved by Minnesota Housing Board of Directors.
3. Modifying a Commitment
 - a. In order to qualify, any change to a commitment must meet eligibility requirements and be submitted on a Loan Modification Request Form.
 - b. Any qualifying commitment change will not alter the commitment period originally established. Changes to commitments, involving the Borrower and/or the Project for which commitment was issued, are not permitted.
 - c. An increase in the loan amount will be allowed only if funds are available to accommodate the change and the increase does not exceed the program limits.
4. Canceling a Commitment

Minnesota Housing requires the Administrator to cancel any commitment of funds that will not be used for the specified Project by submission of a Loan Modification Request Form.
5. Transfer of a Commitment

Administrators may not transfer commitments to another Administrator without prior written approval by Minnesota Housing. Minnesota Housing may transfer a commitment request under the following conditions.

- a. Administrator shall request a transfer of commitment in writing and document the reason(s) for the request.
- b. The new Administrator must be an approved participant in the RRDL Program; and,
- c. The original Administrator must transfer and/or assign the project documents to the new Administrator.

6. Duplicate Funding Requests

Under the RRDL Program, the Administrator may not cancel a Project commitment request and subsequently request funds for the same Project and Borrower.

7. Loan Amount Corrections

If it is determined that an adjustment to a closed loan is necessary, Minnesota Housing will either invoice the Administrator for any funds to be returned or disburse the necessary funds to the Administrator.

F. Allocation of Uncommitted Funds

Administrators will receive funds at the time the construction or end loan closes. After 12 months, if 50% or more of previously allocated RRDL Funds to an Administrator has not been committed to a Project eligible hereunder, such uncommitted funds may be recaptured and reallocated to higher performing Administrators. Priority for allocating recaptured RRDL Funds will be given to Administrator that have utilized 75% or more of their previously allocated RRDL Funds.

G. Annual Reporting

All Administrators with an open Administrative Agreement are required to submit an RRDL Annual Report to Minnesota Housing. Minnesota Housing will provide an annual report format and instructions.

H. Audit and Monitoring Guidelines

The Administrator is required to keep on file a complete copy of all documents for each Project completed as defined in the Administrative Agreement.

With reasonable notice to the Administrator and/or the Project owner, Minnesota Housing reserves the right to make site visits and/or conduct audits of all files related to the use of RRDL Funds.

1. Audit Guidelines and Due Diligence Requirements

Audited files may be requested to be forwarded to Minnesota Housing for review. Audited files are reviewed for, but are not limited to, the following:

- Minnesota Housing program/policy compliance.
- Compliance with the particular award requirements.
- Fraud or misrepresentation on the part of any party involved in the transaction.

- Trends and/or other indicators that may have an impact on the financial viability of the RRDL Program in part or in whole.

The Administrator is required to keep a complete copy of documents for each property assisted by the RRDL Program in a properly labeled file. A copy of an individual loan file may be requested to be forwarded to Minnesota Housing for review. Criteria used to select files to request for auditing include, but are not limited to:

- Statistical sampling.
- Award size or history.
- Completion progress.
- Monitoring / audit results from other Administrator allocations or Borrower files.

2. Monitoring Guidelines and Due Diligence Requirements

Files may be requested to be made available to Minnesota Housing at the Administrator's office during regular business hours. Monitoring visits will include, but are not limited to, the following:

- Physical inspection of Projects.
- Review of files for RRDL Program compliance.
- Verification of financial accounting.

3. Criteria Used to Select Awards to be Monitored May Include; but is Not Limited to:

- RRDL Program completion status.
- Administrator performance issues.
- Time period between monitoring visits.
- Monitoring / audit results from other Minnesota Housing allocations to a Administrator, or Borrower files.

I. *Termination of Administrative Agreement*

In accordance with the Administrative Agreement, Minnesota Housing may at its sole discretion, terminate the participation of any Administrator under this RRDL Program Guide at any time, giving thirty (30) days written notice before such termination, and may preclude Administrator's future eligibility for reasons including, but not limited to, nonconformance with:

- This Program Guide.
- The Administrative Agreement.
- The program guides, procedural manuals, and agreements of other Minnesota Housing programs.
- The Federal Fair Housing Law and other applicable state and federal laws, rules and regulations.

Or, failure of Administrator:

- To satisfactorily perform administrative responsibilities.
- To originate a loan for 12 consecutive months.

Minnesota Housing may, at its discretion, impose remedies other than termination of the Administrative Agreement for any default of the Administrator.

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

3.2 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 RRDL 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 RRDL Funds, together with all applicable administrative costs and other fees or commissions received by the Administrator in connection with the RRDL Funds and for all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the RRDL Funds or recovery thereof.

3.3 COMPLIANCE WITH PRIVACY STATUTES

The Minnesota Government Data Practices Act requires the Administrator to supply borrowers and rental households with the Privacy Act Notice ¹when requesting private data; 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 are public data when a household receives a deferred loan and may be released.*

3.4 UNAUTHORIZED COMPENSATION

Administrator may receive fees approved in this Program Guide. However, an Administrator shall not receive or demand from builder, remodeler, contractor, supplier, or Borrower kickbacks; commissions; or, other compensation.

In order to reduce the total development cost associated with an eligible Project, 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, 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 *Administrators who are Governmental Entities shall use the form approved by their "Responsible Authority", as defined in Minnesota Government Data Practices Act Minnesota Statute 13.02, Subd. 16.*

3.5 REPRESENTATIONS AND WARRANTIES

The Administrator also warrants and represents the following:

- Administrator has directly or indirectly collected from the Borrower or any other person, only those fees and/or charges specifically permitted in this Program Guide.
- Administrator will maintain adequate capital and trained personnel for participation in the RRDL Program.
- The relevant requirements of any state or federal laws under the RRDL Program have been satisfied.
- Administrator has no knowledge that any improvement covered by the loan is in violation of any zoning laws or regulations.
- Administrator has complied with all terms, conditions and requirements of the Administrative Agreement and this Program Guide unless those terms, conditions, and requirements have been specifically waived by Minnesota Housing in writing.

Chapter 4 – Eligibility Criteria

4.1 ELIGIBLE BORROWERS

- A Nonprofit Organization.
- A City.
- A joint powers board established by two or more Cities that owns or will own the housing.
- An Indian tribe or tribal housing corporation that owns or will own the housing.
- A natural person who owns or will own the housing.
- A Private Developer.

Any employee, agent, consultant, officer, or elected or appointed official of Minnesota Housing or of any Administrator who has responsibilities with respect to the RRDL Program, and their families, may not receive a loan during their tenure, or for one year after termination of their relationship with Minnesota Housing or the Administrator.

Borrowers that previously received Minnesota Housing assistance and did not successfully maintain program compliance may not receive a loan.

An Administrator may apply to Minnesota Housing to be a Borrower. In this case, Minnesota Housing will process the application as a Specific Project application under this Program Guide.

4.2 ELIGIBLE PROPERTIES

RRDL funds must be utilized for the rehabilitation of permanent rental housing with a minimum of four units:

- Single family and duplex properties are eligible for assistance under the Program Model as long as four or more units or single family homes are located within a single community or within a designated area as identified in the Program Model.
- Properties must meet the Administrator's selection criteria.
- Properties must be used primarily for residential purposes (51% or more of the gross floor area of each structure must be residential rental space).
- Properties must be a permanent structure.
- Properties must conform to all applicable zoning ordinances and possess all appropriate use permits.
- Projects may contain one or more buildings on a single site that are under common ownership, management, and financing, if the housing units are considered one development.
- Scattered single and multifamily properties may be combined into one loan when there are at least four units having common ownership, management, and financing, and all housing units are being rehabilitated as part of a single undertaking.

In a mixed income development, only the units that meet the income and affordability requirements of the RRDL Program will be funded. The level of funding will be prorated based on square footage of the assisted units compared to that of non-assisted units, as long as the level of building quality and amenities are equal for both.

4.3 INELIGIBLE PROPERTIES

- Owner occupied housing (where 51% or more of the space is owner occupied).
- Public Housing Developments.
- Developments requiring licensing by the state (e.g. nursing homes, assisted living).
- Developments that have reserves in an amount that is sufficient to cover the cost of the intended rehabilitation, plus an amount sufficient to cover the annual routine maintenance and repairs.
- Developments that will not be financially feasible post-rehabilitation.
- Temporary housing properties such as shelters, transitional housing, or residential hotels.

Any unit funded by RRDL Funds must be subject to a lease that is in compliance with all local, state, and federal rules, regulations, and laws.

4.4 INCOME LIMITS

At the time of occupancy, units assisted with RRDL Funds must be occupied by households with incomes that do not exceed 80% of the greater of state or area median income for a family of four, not adjusted by family size. For more information, refer to the Economic Development Housing Challenge Program income limits at:

http://www.mnhousing.gov/resources/apply/multifamily/MHFA_004714.aspx or [RRDL Web Page](#).

Prior to a commitment of RRDL Funds, each household must disclose their income on a Initial Occupancy Statement by Tenant form which is included in the Characteristics of Tenant Households Report.

4.5 ECONOMIC INTEGRATION

Integration of economically diverse households is encouraged. The housing shall be marketed for general occupancy and families.

Borrowers shall not refuse to rent to a household solely on the basis of the household's Section 8 or other tenant based rental assistance.

In existing rental properties, there may be a mixture of qualifying and non-qualifying household incomes. These developments are eligible; however, the level of funding will be prorated as specified in Section 4.2.

There are no income limits for non-assisted units in a mixed income development, unless dictated by another source of funding.

4.6 RENT LIMITS

Minnesota Housing has established maximum RRDL Rent Limits based upon data on wages from the Minnesota Department of Employment and Economic Development (DEED). The final affordable rent is the **lesser** of rents based on wage data and rents based on affordability at 80 percent AMI. The RRDL Rent Limits are available on the [RRDL Web Page](#).

These rent limits were established to ensure rents will be Affordable to the Local Workforce based on wages of the jobs being created or retained in the local area. To support this data, all Applicants will complete a Market Qualification Information form to identify local wages.

4.7 UTILITY ALLOWANCES

Tenant-paid utility allowances are included in the RRDL Rent Limit. Generally acceptable utility allowances are those provided by Public Housing Agencies (PHA) on a Section 8 utility allowance schedule.

Chapter 5 – Eligible Improvements and Expenses

5.1 ELIGIBLE IMPROVEMENTS/EXPENSES

Eligible improvements must be permanent general improvements, with the exception of appliances, that have not been started prior to the loan closing.

Permanent general improvements include renovations or repairs to an existing structure which materially preserve or improve the basic livability, safety, or utility of the property.

Improvements must be made in compliance with all applicable health, fire prevention, building, housing codes and standards, and [Minnesota Housing's Rental Housing Design/Construction Standards](#).

5.2 INELIGIBLE IMPROVEMENTS/EXPENSES

The following improvements and expenses are not eligible for RRDL Funds:

- New construction, conversion or adaptive reuse;
- Installation of window air conditioners, unless previously provided and owned by the development;
- Installation of fireplaces or wood burning stoves;
- Sweat equity for the property owner's labor;
- Owner equity take out;
- Materials purchased prior to loan closing;
- Acquisition;
- Any improvement which is not a permanent fixture to the property (furniture or other personal items are not fixtures under Minnesota law) with the exception of appliances;
- Materials, fixtures, or landscaping of a type or quality exceeding that customarily used in the locality for decent, safe, and sanitary properties of the same general type as the property being improved;
- Change orders not approved by Minnesota Housing prior to commencement of work;
- Construction of or aesthetic improvements to recreational facilities including, but not limited to, patios, gazebos, tennis courts, hot tubs, swimming pools, playground equipment, and saunas;
- Costs associated with a Project which will be incomplete (i.e. framing a room addition);
- Improvements begun prior to loan closing;
- Repairs to or construction of outbuildings including, but not limited to, sheds, utility buildings, shops, barns, silos; and underground sprinkler systems;
- Borrower's Contribution;

- The construction of public development infrastructure, including but not limited to, city water, sewer, curbs and gutters that are not directly related to the rehabilitation of the Project;
- Administration costs not connected to the rehabilitation of the Project;
- The refinance of an existing loan;
- Community development projects including, but not limited to, parks or community centers; and
- Improvements for commercial use.

NOTE: Ineligible improvements/expenses may be completed at the expense of the Borrower.

5.3 ELIGIBLE SOFT COSTS

Soft costs include costs to process and settle the financing for a Project, such as:

- Title Commitment and Insurance Policy;
- Fees for the Owners and Encumbrances Report;
- Fees for recordation and filing of legal documents;
- Building permits;
- Attorney fees;
- Appraisal and independent cost estimate fees;
- Temporary relocation costs;
- Lead-Based Paint Risk Assessment and Lead Clearance fees; and
- Project Management Fee as defined in Section 6.3.

5.4 INELIGIBLE SOFT COSTS

- Application expenses. Although Application Fees may be charged by the Administrator, they may not be paid with RRDL Program Funds.
- Developer fees.
- Operating and/or replacement reserves.

5.5 BORROWER'S CONTRIBUTION

The Borrower is required to contribute to the payment of the rehabilitation expenses. The Borrower shall contribute an amount equivalent to at least 5% of the total amount of the Eligible Soft Costs.

Chapter 6 – Administration Fees

The Administrator may collect fees for legitimate and customary services provided to complete a RRDL loan.

6.1 APPLICATION FEES

The Administrator may impose and charge an Application Fee to the Borrower for preparing and/or reviewing a Borrower Application. Payment of the fee is the sole responsibility of the Applicant and may **not** be included in the loan as an eligible soft cost. Administrators may charge a Borrower an Application Fee using the following fee schedule:

- \$100 per unit.
- \$3000 per project maximum.
- \$500 per project suggested minimum.

If the Borrower Application is not selected, the Administrator may choose, but is not required, to return the Application Fee. The Administrator must disclose to the Borrower before collecting an Application Fee its policy regarding returning fees.

6.2 PROGRAM MODEL ADMINISTRATOR FEE

Under the Program Model, an Administrator will receive a one-time start up fee of \$3,000 to help offset initial RRDL Program Administration expenses. The fee will be paid to the Administrator after the Administrative Agreement has been fully executed.

6.3 PROJECT MANAGEMENT FEE

An Administrator may charge a Project Management Fee for specific administration tasks that are necessary, reasonable, and customary in the industry. The type and amount of fee to be charged will be established by the Applicant on a schedule of fees in the Administrative Agreement.

Eligible project management expenses include, but are not limited to, property inspections, preparing plans, work write-ups, collection and review of loan due diligence, and preparation of loan documents.

The approved Project Management Fees will be realized when the RRDL Loan is closed.

When layering funds from other Minnesota Housing products, only one administrative fee may be charged to the Borrower.

Chapter 7 - Loan Review and Underwriting

7.1 EVIDENCE OF SITE CONTROL

Borrowers are required to provide evidence of 100% fee simple interest in the Project with such interest recorded and appearing in the records of the county. Projects owned by a trust are not eligible to apply for the RRDL Program.

7.2 ORGANIZATIONAL DOCUMENTATION

For purposes of determining an organization's ability to borrow from Minnesota Housing appropriate documentation must be submitted to support the ownership structure (corporation, general partnership, limited partnership, limited liability companies, municipalities, or local units of government). Minnesota Housing will provide details on required documentation once a Project has been selected. All borrowing entities must be for a term at least as long as the term of RRDL Program loan.

A. Corporations Must Provide

1. Certified Articles of Incorporation and amendments, if any.
2. Certified Bylaws and amendments, if any.
3. Borrowing Resolution containing the following:
 - Authority to own and operate rental property.
 - Authority to borrow RRDL Funds and execute Minnesota Housing loan documents.
 - Name and title of officer(s) authorized to execute loan documents.

B. General Partnerships Must Provide

1. Partnership Agreement and amendments, if any.
 - There must be at least two general partners.
 - All general partners are required to sign Minnesota Housing's loan documents, or the partnership agreement or a resolution must designate who is authorized to sign on half of all partners.
2. Borrowing Resolution of corporate general partner(s). Refer to A. 3. above for requirements.

C. Limited Partnerships Must Provide

1. Certificate of Limited Partnership filed with Minnesota Secretary of State's Office.
2. Limited Partnership Agreement and amendments, if any.

- All general partners are required to sign Minnesota Housing's loan documents, or the partnership agreement or a resolution must designate who is authorized to sign on behalf of all partners.

3. Borrowing Resolution of corporate general partner(s). Refer to A. 3. above for requirements.

D. *Limited Liability Companies (LLCs) Must Provide*

1. Certified Articles of Organization and amendments, if any.
2. Certified Operating Agreement/Bylaws and amendments, if any.
3. Certified Member Control Agreement (if applicable) and amendments, if any.
4. Borrowing Resolution of corporate member(s). Refer to A. 3. above for requirements.

E. *Municipalities or Local Units of Government (i.e., HRA, EDA) Must Provide*

1. Enabling resolution and minutes from the city council establishing the local unit of government.
2. Certified Bylaws and amendments, if any.
3. Borrowing Resolution. Refer to A. 3. above, for requirements.

F. *Certificate of Good Standing*

All entities must submit a Certificate of Good Standing, when applicable, which must be issued by The Minnesota Secretary of State's Office and dated within 30 days prior to the closure of the RRDL Program loan.

7.3 *TITLE EXAMINATION REQUIREMENTS*

The Administrator is required to verify the legal description of the Real Estate, the Borrower's ownership interest, and any existing liens. Title investigation must be arranged by the Administrator through a Title Company in the form of an Owners and Encumbrances Report, or a Title Insurance Commitment / Policy, as follows:

- For loans less than \$100,000, an Owner's and Encumbrances report is acceptable.
- For loans of \$100,000 or more and construction loans, a Lender's Policy of Title Insurance is required.

Title must show that the Project is vested in the Borrower and is free from any liens or exceptions to title, other than the lien created by the RRDL Program loan and those consented to by Minnesota Housing in writing.

7.4 UNDERWRITING STANDARDS AND FINANCIAL ANALYSIS

The Administrator must have and utilize normal and prudent underwriting standards to underwrite a loan for a Borrower. The Administrator must document the evaluation and determination of the Project feasibility and the Borrower's ability to repay the loan. Minnesota Housing will not issue a Loan Commitment without sufficient evidence of underwriting analysis.

A. Financial Analysis

When approving a loan, at a minimum, the following information shall be reviewed:

1. The completed Borrowers Application and Multifamily Common Application Form (RFP, HTC 1), including but not limited to: estimated rental income, operating expenses, construction costs, and funding sources.
2. All debts relating to the Project must be disclosed and documented, including debt service requirements.
3. A current appraisal or market analysis, if available, otherwise a recent property tax statement is acceptable.
4. The Project's operating budget for the past 2 years, vacancy information and a cash flow analysis demonstrating the Project's ability to remain affordable and sustainable.
5. Any reserves, escrows, and other resources available to make repairs. RRDL Funds shall be the funding of last resort and will not exceed the amount necessary to fill the funding gap or the RRDL Program limits.

RRDL Loans will be underwritten at a minimum, consistent with the Multifamily Deferred Loan Lending Policies below:

1. Single asset entities are required for Projects with total development cost of greater than \$300,000.
2. Vacancy will be underwritten at the greater of market or 5%.
3. Cash flow projections must indicate a historic evidence of cash flow for the property. The Project's cash flow and debt service coverage should be documented and analyzed. If one of the dwelling units in a Project is occupied by the Borrower, or any of the units are vacant at the time of Borrower's Application, the rent that the unit could reasonably be expected to command in the open market may be considered in the Project's cash flow analysis.

4. All properties that are eligible for Low Income Rental Classification (LIRC) or Payment in Lieu of Taxes (PILOT) must participate in those programs.

B. Borrower Credit Worthiness

The Borrower's debt payments in comparison to income receipts must indicate the Borrower's ability to repay the loan. The Project file must contain evidence of the Borrower's financial status and credit worthiness. At a minimum, the following materials will be provided by the Borrower for review:

1. Individual Borrowers
 - a. Personal financial statement (PFS) for individual Borrowers signed and dated within the past 6 months. A personal financial statement on a form acceptable to Minnesota Housing, verifying the Borrower's assets, liabilities, and net worth shall be required, and evaluated as an indicator of the Borrower's repayment ability.
 - b. Two years of personal tax returns, including K-1s. The previous two years' tax returns must be used to verify income of self-employed individuals, persons having variable annual incomes, or when income from interest/dividends or income-generating property comprises a significant portion of gross income.
 - c. Personal credit report from one of the 3 large, national credit bureaus. The Project file must include a commercial credit report and any of the following if necessary to document the Borrower's creditworthiness:
 - Written letters of credit experience from creditors,
 - Documented telephone conversations with creditors, and
 - A letter describing the Administrator's own credit experience with the Borrower.
2. Corporation, LLC, LLP, or LP Borrowers

The credit investigation shall include information on all persons required to join in the RRDL Mortgage Note. At a minimum, the following materials will be provided for review:

 - a. Two or more years of accountant prepared financial statements.
 - b. Two years of tax returns for the borrowing entity.
3. Non Profit or Governmental Borrowers
 - a. Two or more years of audited financial statements for governmental entities and Non Profit organizations.

C. Debt Information

The Borrower must list all fixed obligations for which the Borrower has assumed personal liability, including but not limited to, all mortgage or contract-for-deed payments for purchasing real property, installment loans, personal notes, and debts to financial institutions.

Obligations related to the Borrower's business for which he or she is not personally liable should not be considered personal debts, but should be listed on the credit application and identified as business debts. The general financial condition of the Borrower's business should be reviewed to determine whether it is likely to have an adverse effect on the Borrower's ability to repay the loan.

D. Income Documentation

All sources and amounts of income which comprise a significant portion of the Borrower's projected gross annual income, before taxes and withholding, shall also verify in writing as of the date of the Borrower Application. Net income from rental or business activities shall be counted after adding back depreciation.

7.5 APPLICATION TO COMPLETION DUE DILIGENCE REQUIREMENTS

Processing of RRDL Program loans should be completed within six to twelve months. Delays in submission or revision of any items could result in delays in reaching loan closing.

A complete list of the required due diligence items for processing a loan receiving RRDL Funds is available on the RRDL website

<http://www.mnhousing.gov/resources/apply/RentalRehabilitationDeferredLoan/index.aspx>.

The phases of the Program Model loan completion process is listed below:

A. Project Selection Requirements

The Administrator shall collect, evaluate, approve, and maintain a complete file containing all required due diligence for each Project selected for RRDL Funding in compliance with the Administrators RRDL Project Application File Checklist provided by Minnesota Housing and the terms of the Administrative Agreement.

B. Commitment and Closing Requirements

The Administrator will complete the RRDL Loan Commitment / Closing Checklist and Certification, which details specific documentation/delivery requirements, and provide the information to Minnesota Housing for review. In addition, Administrators must specifically warrant that all applicable documentation has been obtained and reviewed to determine compliance with all RRDL Program requirements.

Minnesota Housing will prepare the loan documents and provide them to the Administrator to close the loan with the Borrower. The fully executed documents must be delivered to Minnesota Housing within timeframes designated in Section 3.1 of this Guide.

RRDL Mortgage Loan Commitment will be issued for both End Loans and Construction Loans. At that time, RRDL Funds will be set aside for the approved Project.

1. End Loans may begin construction upon execution of the RRDL Mortgage Loan Commitment, and in accordance with the terms of any interim financing, if applicable. After completion of construction the Administrator shall submit, to Minnesota Housing, the required due diligence necessary to request preparation and delivery of the RRDL loan document package, and arrange for a closing with the Borrower.
2. For Construction Loans, the RRDL loan documents must be executed and recorded prior to the start of construction.

Documentation not delivered to Minnesota Housing within the specified time frames may result in, at Minnesota Housing's discretion, the refusal to issue a loan commitment, repayment of a RRDL Program loan, or any such remedy as identified in this Program Guide or allowed by law. Minnesota Housing, at its sole discretion, may also extend the timeframes.

C. Construction and Project Completion Requirements

The Administrator will prepare the RRDL Completion Certification, which details specific documentation/delivery requirements, and provide the recorded legal documents to Minnesota Housing. In accordance with the requirements of the RRDL Completion Certification, Administrators must provide the required documents and specifically warrant that the work was completed as detailed in the approved Scope of Work and all applicable documentation has been obtained and reviewed to determine compliance with all RRDL Program requirements.

7.6 PROJECT MANAGEMENT AND OPERATION

A. Management and Operation Budgets

The management and operating budgets provided in the underwriting of the RRDL Program loan must indicate the Project long-term operating costs which will protect the long-term investment being made by, the Borrower and Minnesota Housing. As a starting reference point for review of Project's cash flow, operating benchmarks will continue to be published in the Multifamily Consolidated Request for Proposal Guide available at:

<http://www.mnhousing.gov/resources/apply/multifamily/index.aspx>.

Minnesota Housing reserves the right to review and compare to budgets of comparable Minnesota Housing financed developments. Additionally and/or in place of using Minnesota Housing comparables; actual year end financial statements and/or audited management and operating expenses may be used.

For Specific Project applications, Minnesota Housing may reject or adjust the operating and maintenance figures based upon the information supplied, specific

development type, and circumstances and/or significant changes to the economics of the Project's current market place.

B. *Utilization of Units*

All units must be rented to family sizes appropriate to the unit size with a ratio of at least one person per bedroom. If, during the course of tenancy, a family size changes, a household may submit a written request to the Borrower to transfer to another unit or be placed on a waiting list for such transfer. In the event of a decrease in family size, the household may be required to move into the next available suitably sized smaller unit.

C. *Marketing*

The Borrower shall demonstrate that they have established networks and linkages necessary for residents to maintain sustainable housing occupancy.

Chapter 8 - Loan Servicing and Monitoring

8.1 MINIMUM EFFECTIVE PERIOD

The Effective Period begins on the date that the RRDL Program loan closes.

The income and occupancy conditions for the assisted units, are as set forth herein, are in effect for the term of the loan. If the loan is paid in full early, the income and occupancy conditions will remain in place as follows:

- Loans with an initial 10 year term shall have a minimum 5 year Effective Period.
- Loans with an initial 15 year term shall have a minimum 10 year Effective Period.
- Loans with a longer initial term shall have a minimum 15 year Effective Period.

8.2 TRANSFERS OF OWNERSHIP

A loan may be assumed contingent upon:

- Minnesota Housing's review and approval of the proposed ownership entity.
- Assumption of all contractual obligations with Minnesota Housing.
- Payment of a fee equal to the greater of ½ of 1% of the outstanding RRDL Program loan amount or \$1,500.

8.3 LOAN PREPAYMENT

The RRDL Program loan may be prepaid in full at any time; however, rent and income restrictions will remain in place for the applicable Effective Period. Minnesota Housing will charge a prepayment fee equal to the greater of ½ of 1 percent of the outstanding RRDL Program loan amount or \$1,500.

8.4 PARTIAL DEBT REDUCTION

Up to twenty five percent (25%) of the debt may be forgiven for maintaining the applicable income and occupancy requirements and compliance requirements for the full RRDL Program loan term. Five percent will be forgiven each year of the last five years of the RRDL Program loan term.

8.5 LOSS OF AFFORDABILITY PREMIUM

In some circumstances, the Borrower may appeal for release from all RRDL Program loan requirements prior to the end of the Effective Period. If the request is deemed reasonable in Minnesota Housing's sole discretion, the Borrower shall pay a premium in addition to the full RRDL Program loan amount to receive a release from the remainder of the Effective Period.

The Borrower will be charged a 3.5% premium fee on the full loan amount for each year for the remainder of the minimum Effective Period as further described in the lending documents.

8.6 INCOME AND OCCUPANCY MONITORING

Rent requirements will be monitored by Minnesota Housing for the Effective Period. The Borrower must annually verify to Minnesota Housing that the Project has complied with RRDL Program restrictions. The annual certification form requires the Borrower to certify compliance with rent, income and property insurance requirements, and identify any changes in ownership, management, and/or service provider. The Borrower will report in a form and manner required by Minnesota Housing.

As assisted units become vacant, incomes of new households occupying those units will be verified and analyzed and reported to Minnesota Housing on an annual basis. Households income need only qualify at the time of initial occupancy and does not need to be re-certified thereafter.

Minnesota Housing will inspect the property every 5 years in accordance with Minnesota Housing's Multifamily Deferred Loan monitoring policy.

A Data Practices Act Disclosure Statement will be required for each household that occupies a RRDL Program loan assisted unit. This information is necessary for the administration and management of State or Federal programs that provide housing for Low and Moderate Income Households.

Chapter 9 - Rehabilitation Standards

9.1 GENERAL

This section describes minimum rehabilitation standards required for Project's receiving RRDL Funds.

The Project must comply with the Minnesota State Building Code and any other applicable federal, state, or local codes, ordinances, standards, and regulations at Project completion and throughout the Effective Period. In addition, housing must comply with [Minnesota Housing's Rental Housing Design/Construction Standards](#), standards described herein.

Where two standards govern the same condition, conformance to the most restrictive standard is required.

9.2 PROPERTY SELECTION

Prior to selecting a development to receive RRDL Funds, the following minimum property standards shall be met or determined capable of being met through proposed improvements. They are as follow:

A. Marketability

Minnesota Housing reserves the right to evaluate marketability of dwelling units. Barriers to marketability may include location, dwelling unit size, and/or dysfunctional dwelling unit layout.

B. Access

Each dwelling unit shall comply with the following access requirements:

1. Access to and from each dwelling unit must be without unauthorized use of other private properties or private spaces within the dwelling unit, and the building must provide an alternative means of egress in case of fire, which does not require use of other private property.
2. Each dwelling unit shall have a continuous and unobstructed means of egress to a public way such as a street, alley, or parcel for public use as defined by building code. Basements in dwelling units and every sleeping room shall have at least one operable window or door approved for emergency escape or rescue which shall open directly into public street, public alley, yard or exit court as defined by building code.
3. Existing dwelling units that currently have doors and windows for emergency escape that requires the use of other private property as an escape route to a public way must be approved by the Local Building Official, Fire Marshall and Minnesota Housing architect. If this escape route becomes obstructed, even through no fault of

the Borrower, the dwelling unit will be considered to be in non-compliance and the RRDL Program loan may be required to be repaid.

C. *Municipal Sewer and Water*

Any housing that is currently utilizing a private well and/or sewer system must be converted over to municipal sewer and water if available in an adjacent street, easement, or right-of-way and doing so is economically feasible.

9.3 TECHNICAL ASSISTANCE

Minnesota Housing will require the Borrower to hire an architect and/or professional engineer to provide professional services if the Project contains four or more dwelling units and work scope involves window replacement or if other conditions apply. Refer to Minnesota Housing's Architect's Guide for other conditions requiring architectural services,

http://www.mnhousing.gov/idc/groups/multifamily/documents/webcontent/mhfa_008062.pdf

If architectural services are not warranted, a qualified rehab specialist will be required to provide technical assistance which includes the following:

- Conduct a property inspection utilizing the Minnesota Housing approved Property Inspection Template.
- Coordinate environmental reviews/remediation.
- Accessibility analysis.
- Coordinate other inspections.
- Prepare preliminary work scope/cost estimate.
- Prepare contract documents.
- Assist Borrower in securing a contractor.
- Contract administration.

9.4 REHABILITATION STANDARDS

All rehabilitation work shall conform to the Minnesota Housing Rehabilitation Standards as described in [Minnesota Housing's Rental Housing Design/Construction Standards](#).

9.5 SUSTAINABLE HOUSING STANDARDS

All rehabilitation work shall conform to Minnesota Housing's Green (Sustainable) Housing Standards including all items scheduled for replacement.

Projects must install Energy Star Water Sense-labeled products when older obsolete products (such as windows, doors, lighting, fans, water heaters, furnaces, boilers, air conditioning units, refrigerators, clothes washers, dryers, dishwashers, toilets, showers, and faucets) are replaced as part of rehabilitation work.

http://www.mnhousing.gov/housing/architects/MHFA_007963.aspx

9.6 PREPARATION OF BID SPECIFICATION/SCOPE OF WORK

The Administrator (with assistance of architect/professional engineer, as applicable) shall develop the Scope of Work and include all work necessary to insure the Project will comply with applicable state and local codes, standards, and ordinances, HQS, UPCS, rehabilitation standards, and sustainable housing standards.

Once the Scope of Work is approved by Minnesota Housing, the Borrower, and the Administrator, the Administrator or Borrower shall have prepared for approval contract documents consisting of drawings and specifications setting forth in detail the requirements of the Project. Refer to Loan Commitment of the [Minnesota Housing Contractor's Guide](#) for additional information.

9.7 OBTAINING AND EVALUATING BIDS

The Administrator shall devise bid and proposal forms, scope of work forms, or other forms that may help the Borrower in obtaining adequate bids and bids from companies with diverse workforces.

To ensure reasonable costs, Minnesota Housing requires the Borrower to obtain a minimum of two competitive bids from single prime general contractors. All bidders must provide evidence of a valid Residential Building Contractors License.

Minnesota Housing may permit direct selection (negotiated or comparative selection) for awarding construction contracts if other Minnesota Housing deferred loan assistance is provided in addition to RRDL Funds and work scope is substantial enough to warrant Project oversight by a Minnesota Housing staff architect.

9.8 BIDS AND ESTIMATES FOR IMPROVEMENTS

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

9.9 ELIMINATING WORK SCOPE ITEMS

Elimination of Scope of Work items is allowable provided the Project will comply and remain in compliance with all applicable state and local codes, standards, and ordinances, rehabilitation standards, and sustainable housing standards through the Effective Period.

Minnesota Housing may determine that the eliminated work scope items are necessary and require the Borrower to have the work performed at their expense.

The Administrator may encourage the Borrower to request non-essential items as alternate bids when developing the Scope of Work.

9.10 CONSTRUCTION CONTRACTS

A construction contract must be executed between the Borrower and the single prime general contractor. Minnesota Housing requires an American Institute of Architects form of owner-contractor agreement for Project's obtaining \$100,000 or greater in Minnesota Housing funding. Refer to [Minnesota Housing Contractor's Guide](#) for additional information.

9.11 CONTRACTOR SURETY

Minnesota Housing requires contractor surety when a Borrower will be obtaining a Minnesota Housing construction loan(s) greater than \$300,000.

Refer to [Minnesota Housing's Contractor's Guide](#) for additional information.

9.12 PROCEED TO WORK

For an End Loan, upon execution of RRDL Loan Commitment, the Administrator shall notify the Borrower that they may issue a "Proceed to Work" order to the selected single prime general contractor. For Construction Loans the RRDL Mortgage Note must be recorded prior to the start of any work.

9.13 MONITORING CONSTRUCTION PROGRESS

A. End Loans

The Administrator shall conduct periodic site inspections during the construction period to ensure work is proceeding according to the Scope of Work.

The Administrator and Contractor must certify that lead-safe work practices were observed during site inspection by noting the file, per section 24 CFR Part 35, when applicable.

B. Construction Loans

The Administrator must be present at all draw meetings to ensure that Minnesota Housing's interests and RRDL Program policies are being met.

The Administrator and Contractor must certify that lead-safe work practices were observed during site inspection by noting the file, per section 24 CFR Part 35, when applicable.

9.14 CHANGE ORDERS

A. Requests for Increase/Decrease in Rehabilitation Expenses

If the expenditure, or anticipated expenditure, is less or greater than the approved RRDL Program construction contract amount, the Borrower must submit the following to Administrator:

1. Written explanation of any increase and/or decrease, with the new and/or amended bid(s) or invoice(s).
2. Change Order Form (AIA or other industry standard form) indicating the increase/decrease in the construction contract amount.
3. Revised Sworn Construction Statement shall be submitted in final closing package.

The executed Change Order form will be returned to the Administrator. The Administrator shall not authorize the commencement of any additional work or the expenditure of any additional funds until receipt of written additional funding source from the Borrower.

The amount of assistance provided to the Borrower at final closing will be adjusted according to the approved increase/decrease.

B. Requests for Change in Contractor and/or Improvements

Minnesota Housing must approve a change in contractor or eligible improvements, whether or not there is a change in the cost of the rehabilitation.

9.15 LOAN CLOSING WARRANTIES

Upon the loan closing for a Project, the Administrator makes the following warranties to Minnesota Housing on the date that the loan is closed:

1. It has complied with all terms, conditions, and requirements of this Program Guide and the contractual documents as they pertain to the submission of application packets and the closing of all RRDL Program loans, unless Minnesota Housing has waived them in writing.
2. After reasonable inspection, it is satisfied that no improvement covered by the RRDL Program loan is in violation of any applicable zoning laws or regulations.
3. It has closed the RRDL Program loan in accordance with Minnesota Housing closing instructions as outlined in this Program Guide and the Administrative Agreement.

9.16 CONSTRUCTION WARRANTY PERIOD

The Contractor shall be required to warranty work as described within the [Minnesota Housing's Contractors Guide](#).

Chapter 10 – Affirmative Action and Equal Economic Opportunity Policy

10.1 POLICY

It is the policy of Minnesota Housing to take affirmative action to provide equal opportunity in all of our projects, programs, and other endeavors. Minnesota Housing's goal is to achieve a client and recipient mix that is representative of the people who live in our state and our communities, so that all employment and contractual benefits that develop as a result of our programs will be shared by all Minnesotans. This policy applies to all Minnesota Housing employees and everyone with whom we do business.

10.2 PURPOSE

The purpose of this Plan is to make Minnesota Housing's commitment to act affirmatively to achieve equal opportunity in all facets of its operation, clear to both internal staff and outside parties with whom we do business.

10.3 GOALS

Our goal is to ensure minority and female contractors and subcontractors equal access to business opportunities on Minnesota Housing financed projects and to encourage the presence of minorities and women at all levels, on the staffs of the program participants having contractual agreements with Minnesota Housing. Minnesota Housing's goal is to ensure that the workforces on the projects and programs we finance reflect demographically the area in which they are located. Our goal is to ensure equal business opportunity to minority and female contractors and subcontractors on the projects we finance and equal employment opportunity in the workforces of the firms with whom we sign contractual agreements, in which a contractor commits to meet Minnesota Housing's employment and business goals. These goals will apply for the length of the contract or the life of the mortgage. Minnesota Housing, at its discretion, may set numerical or percentage goals dependent on the location and size of a given project. Current goals will be determined by staff based on the location of the Project.

10.4 REQUIREMENTS

Minnesota Housing is required to comply with all applicable state, federal and local laws. These requirements are passed on to everyone we do business with, either by contractual agreement or as a Minnesota Housing policy.

10.5 SANCTIONS

Minnesota Housing has the contractual authority to demand full payment of any loan or grant, stop proceeding with any project at any stage, and cease to do business with any entity or individual that fails to follow our affirmative action policies or fails to meet its/his/her contractual equal opportunity obligations.

10.6 EQUAL OPPORTUNITY LAWS/RULES

The operations of Minnesota Housing are regulated by, but not limited to, the following Equal Opportunity Laws/Rules:

- Executive Order 11246 (Affirmative Action Requirements, Federal and federally derived Contracts).
- Executive Order 11625 (Minority Business Enterprises).
- The Civil Rights Act of 1964 (Title VII).
- Equal Employment Act of 1972.
- The Americans with Disability Act of 1990.
- Section 504 of the Rehabilitation Act of 1973 as amended.
- Minnesota Human Rights Act.
- Fair Housing Amendments Act of 1988.

Chapter 11 – Fair Housing Policy

Minnesota Housing's fair housing policy incorporates the affirmative fair housing marketing practices addressed in Title VIII of the Civil Rights Act of 1968 as amended by the Fair Housing Amendment Act of 1988, which state that it is unlawful to discriminate in the sale, rental, and financing of housing based on race, color, religion, sex, handicap, familial status or national origin; as well as the fair housing protections provided by the Minnesota Human Rights Act, which adds creed, marital status, status with regard to public housing, and sexual orientation.

In part, regarding rental housing issues, Title VIII and the Human Rights Act makes it unlawful to: (i) discriminate in the selection/acceptance of applicants in rental of housing units; (ii) discriminate in terms, conditions or privileges of rental of a dwelling unit; (iii) engage in any conduct relating to the provision of housing which otherwise make unavailable or denies rental of a dwelling unit; (iv) make or publish (or have anyone else make or publish) advertisements that indicate preferences or limitations based on race, etc.; (v) tell a person that because of race, etc., a dwelling unit is not available when it is; and (vi) deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions or membership or participation.

Minnesota Housing has a commitment to affirmatively further fair housing for members of the disabled communities by promoting the accessibility requirements set out in the Fair Housing Amendment Act of 1988, which establish design and construction mandates; and provide for the residents' right to make reasonable accommodations, under certain conditions (applicable to covered multifamily dwellings, buildings consisting of 4 or more units if such buildings have one or more elevators; and ground floor dwelling units in other buildings consisting of 4 or more dwelling units).

All Minnesota Housing programs require owners to market affirmatively, using specific steps geared to the particular program. These steps include:

- Outreach to all groups protected by the Civil Rights Act of 1968, amended in 1988, and those protected by the Minnesota Human Rights Act.
- Affirmative marketing strategy that reaches protected groups.
- Self-analysis to make sure all steps are non-discriminatory.
- Upon request by Minnesota Housing, the submission of reports and documents that confirm the owner's fair housing efforts.

Participants will be expected to use affirmative fair housing marketing practices in soliciting renters, determining eligibility, and concluding all transactions.

Chapter 12 – Program Contacts

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Definitions

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

Term	Definition
Administrative Agreement	An agreement outlining the legal relationship and responsibilities of a Program Model Administrator who was allocated funds by Minnesota Housing to implement and process applications for the RRDL Program.
Administrator	An applicant selected to participate in either a Program Model or Specific Project through the RRDL Program.
Affordable to the Local Workforce	The amount of housing payments made by the occupants of housing based on the wages of jobs being created or retained in the local area. Affordable rent limits for each county are listed on the Minnesota Housing website: http://www.mnhousing.gov/resources/apply/RentalRehabilitationDeferredLoan/index.htm . Affordable rents are based on local county calculations and determined by Minnesota Housing, unless another method is approved in writing by Minnesota Housing.
Applicant	Housing & Redevelopment Authorities (HRAs), Community Action Programs (CAPs), local non-profit housing providers, units of local and tribal governments, and joint powers boards of two or more of the aforementioned entities, submitting an Application for Funds to rehabilitate a Specific Property or a Program Model designed to provide rehabilitation in specific geographic areas of Minnesota.
Application Fee	Fee paid by the Borrower to an Administrator for preparing and/or reviewing a Borrower Application.
Application for Funds	Application materials developed by Minnesota Housing for the purposes of soliciting applications and allocating funds for the RRDL Program in response to a Request for Proposal.
Borrower	A Borrower is one or more owners who are eligible to apply for and receive RRDL Funds in conformance with the requirements of the Program Guide, and all applicable statutes and rules.
Borrower Application	Application materials developed by Minnesota Housing for the purposes of soliciting applications and releasing funds for the RRDL Program to rehabilitate an eligible residential rental property.
City	Defined in Section 462A.03, subdivision 21 of Minnesota Statutes.
Consolidated RFP	Minnesota Housing Multifamily Consolidated Request for Proposals.
Construction Loan	A permanent loan for a rehabilitation project requiring disbursement of Minnesota Housing loan proceeds during the construction phase.
Deferred loan	A non- or low-interest-bearing loan made without periodic payments and repaid in full at the end of the loan term or upon the occurrence of specified events.
Effective Period	The period of time between the beginning loan date on the legal documents and time within which the Borrower will comply with all requirements of Loan Servicing and Monitoring in accordance with this Program Guide.
End Loan	A permanent long term loan used to pay off a short term construction loan with entire Minnesota Housing loan withheld until end of construction.
Funds Availability Term	The term in which Administrator has to use RRDL Funds as outlined in the Administrative Agreement.

Greater Minnesota	The area of the state of Minnesota which is outside the seven counties of: Anoka, Dakota, Carver, Hennepin, Ramsey, Scott, Washington.
HOME Program	HUD establishes HOME Investment Trust Funds and awards funds to participating jurisdictions to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.
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.
LIRC	Low Income Rental Classification. The tax bill adopted by the Minnesota Legislature in the 2005 legislative session and signed by the Governor on Wednesday, July 13, 2005 made significant changes to the property tax classification rate for qualifying low-income rental properties. This results in a class rate reduction of up to 40% for qualifying units in some rent and income-restricted properties. http://www.mnhousing.gov/housing/developers/lirc/index.aspx
Local Unit of Government	A local unit of government, such as a city, county or housing redevelopment authority as defined in Minnesota Statutes Section 462C.02, subdivision 6.
Low and Moderate Income Households	Households whose incomes are equal to or less than 80% of the greater of state or area median income not adjusted for family size. Tenants will disclose their income on a tenant certification form. Income limits and forms are available on Minnesota Housing's website. http://www.mnhousing.gov/housing/servicing/MHFA_004835.aspx
Minnesota Housing	Minnesota Housing Finance Agency.
Nonprofit Organization	Defined in Section 462A.03, subdivision 22 of Minnesota Statutes.
Permanent Supportive Housing	Permanent rental housing affordable to the population served where support services are available to residents. Permanent supportive housing is available to individuals and families with multiple barriers to obtaining and maintaining housing.
PILOT	Payment in lieu of taxes.
Plans and Specifications	Documents including drawings, diagrams or sketches that describe the work to be done, as well as all measurements and construction details and a detailed list of the products and materials.
Private Developer	An individual or a for-profit, non-governmental entity, including, but not limited to, a cooperative housing corporation as defined in part 4900.0010, subpart 8, and a limited dividend entity as defined in part 4900.0010 (Subpart 14).
Program Guide	This Rental Rehabilitation Deferred Loan Pilot Program Guide.
Program Model	A RRDL Program designed to provide rehabilitation in specific geographic areas of Minnesota that may offer variations on the RRDL Program, subject to the written approval of Minnesota Housing.
Project	The Real Estate and improvements thereon, for which the owner has applied for RRDL Funds.
Project Management Fee	A fee awarded to an Administrator for specific administration tasks that are necessary, reasonable, and customary in the industry, to process a RRDL Loan to closing in accordance with the Program Guide.
Public Housing Agency (PHA)	Any state, county, municipality or other governmental entity or public body (or agency or instrumentality thereof) that is authorized to engage or assist in the development or operation of low-income housing.
Public Housing Development	A development owned by a state agency or local political subdivision, and requires that a public housing program be provided in the development.
Real Estate	Property consisting of land and the buildings on it, along with its natural resources.

Request For Proposal (RFP)	The process by which Minnesota Housing solicits an Applicant to apply for funds under the RRDL Program.
RRDL Agreement ID Number	The unique identifier listed on the Administrative Agreement, which must be used on all forms and correspondence with Minnesota Housing.
RRDL Funds	The cumulative funds made available to the Administrator or Borrower.
RRDL Mortgage	The legal document used to secure a lien on Real Estate. The RRDL Mortgage must be in a form provided by Minnesota Housing.
RRDL Mortgage Note	The legal document outlining the terms and conditions under which the RRDL Loan is repaid. The RRDL Mortgage Note must be in a form provided by Minnesota Housing.
RRDL Program	Rental Rehabilitation Deferred Loan Pilot Program.
RRDL Rent Limits	Minnesota Housing has established maximum RRDL Rent Limits based upon data on wages from the Minnesota Department of Employment and Economic Development. The RRDL Rent Limits are available on the RRDL Web Page.
Scope of Work	A detailed outline of the necessary rehabilitation work to be completed on the property.
Specific Project	A RRDL Program to assist a single Project to be rehabilitated which an Administrator owns or will act as the Processing Agent for the Borrower.
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.
Title Company	An organization that provides property title examination and title insurance coverage, closing services and disbursements of construction funds.
Tribal Land	Any land owned or governed by a federally recognized tribe.
Tribal Government	Pursuant to 25 USC § 3902 (5) means "the governing body of any Indian tribe, band, nation, pueblo, or other organized group or community which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.
Underserved Populations	Households of color; single, female heads of Households with minor children; and disabled households.
UPCS	HUD Uniform Physical Conditions Standards