MINNESOTA HOUSING

Fix Up Loan Program
Procedural Manual

September 25, 2019

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Introduction

Mission Statement

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

Background

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

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

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

Home Improvement Loan Programs

Fix Up Loan

Affordable interest rate home improvement loans to Borrowers throughout Minnesota.

Community Fix Up Loan

Affordable interest rate home improvement loans that are available throughout Minnesota under special initiatives with specific participating lenders.

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

Chapter 1 – Partner Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing Programs executed between the Lender and Minnesota Housing. The Participation Agreement is incorporated into this Procedural Manual by reference.

Minnesota Housing reserves the right to:

- Change the program interest rate at any time under its sole discretion;
- Alter or waive any of the requirements;
- Impose other and additional requirements; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

Minnesota Housing is under no obligation to purchase any loan or retain ownership of a loan that does not comply fully with this Procedural Manual. Minnesota Housing grants waivers, alterations or revisions at its sole discretion.

1.02 Evidence of Misconduct Referred to Attorney General

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

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

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Chapter 270A) allows the disclosure of the Borrower's Social Security Number to the Minnesota Department of Revenue. This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

1.04 Unauthorized Compensation

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

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

1.05 Minnesota Housing due Diligence Audit Guidelines and Requirements

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

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

Audited loans are reviewed for:

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

1.06 Termination of Lender Participation

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

- This Procedural Manual;
- The Participation Agreement; and
- Applicable state and federal laws, rules and regulations.

Upon termination of a Lender's contract, Minnesota Housing will:

- Continue to purchase eligible loans until the lock expiration date; and
- Not refund participation fees to the Lender.

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

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

1.07 Representations and Warranties

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

- Minnesota Statute §47.20;
- Minnesota Statute §58.04;
- Minnesota Statute §325G.15 and §325G.16;
- Minnesota Statute §334.01;
- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Federal Trade Commission Trade Regulation Rule Concerning Preservation of Consumers' Claims and Defenses (Holder Rule), 16 CFR §433;
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth in Lending Act (Regulation Z);
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;

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- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Real Estate Settlement and Procedures Act of 1974; and
- TILA/RESPA Integrated Disclosure Rule (TRID).

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

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

The Lender also agrees that the person who confirms on the Minnesota Housing Loan Commitment System the Lender Representations and Warranties on behalf of the Lender is fully conversant with Minnesota Housing program requirements and has the authority to legally bind the Lender; and the Lender has complied with all terms, conditions, and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions, and requirements are specifically waived in writing by Minnesota Housing.

1.08 Lender Compensation

Secured Loans

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

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

Unsecured Loans

- The Lender is compensated $250 for each unsecured Fix Up loan purchased by Minnesota Housing.[1]
- The Lender may charge, and the Borrower may finance, the actual cost of document preparation not to exceed $50.
- The actual cost of the credit report must be paid from the Borrower's own funds and may not be financed in the loan amount.
- There are no origination fees, title search, flood certification, recording or mortgage registration tax fees for unsecured loans.

1.09 Annual Renewal Requirements and Fees

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

1.10 Selection of Contractors

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

1.11 Marketing Materials Terms of Use

Lenders must follow Minnesota Housing's Terms of Use for marketing materials and the Participation Agreement requirements for marketing and use of Minnesota Housing's name or logo.

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

Chapter 2 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

2.01 Fraud

Fraud is any intentionally deceptive action made for personal gain or to damage another.

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in section 2.05.

2.02 Misuse of Funds

A loan or grant agreement is a legal contract. The borrower or grantee promises to use the funds to engage in certain activities or procure certain goods or services while Minnesota Housing agrees to provide funds to the borrower or grantee to pay for those activities, goods or services. Regardless of the Minnesota Housing program or funding source, the borrower or grantee must use Minnesota Housing funds as agreed and the borrower or grantee must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

A misuse of funds shall be deemed to have occurred when: (1) Minnesota Housing funds are not used as agreed by a borrower or grantee; or (2) A borrower or grantee cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the loan or grant agreement.

Any borrower or grantee (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in section 2.05.

Borrowers and grantees referred to in this section are the Minnesota Housing contracting party. If applicable, third party recipients of funds, such as homebuyers, are bound by terms as detailed in the loan documents.

2.03 Conflict of Interest

A conflict of interest, actual, potential, or perceived, occurs when a person has an actual or apparent duty or loyalty to more than one organization and the competing duties or loyalties may result in actions which are adverse to one or both parties. A potential or perceived conflict of interest exists even if no unethical, improper or illegal act results from it.

An individual conflict of interest is any situation in which one’s judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a friend, relative, acquaintance or business or organization with which they are involved.

Organizational conflicts of interest occur when:

- A contracting party is unable or potentially unable to render impartial assistance or advice to Minnesota Housing due to competing duties or loyalties
- A contracting party's objectivity in carrying out their responsibilities is or might be otherwise impaired due to competing duties or loyalties
- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors

Once made aware of a conflict of interest, Minnesota Housing will make a determination before disbursing any further funds or processing an award. Determinations could include:

- Revising the contracting party's responsibilities to mitigate the conflict
- Allowing the contracting party to create firewalls that mitigate the conflict
- Asking the contracting party to submit an organizational conflict of interest mitigation plan
- Terminating the contracting party's participation

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all actual, perceived, or potential conflicts of interest through one of the ways described in section 2.05.

A contracting party should review its contract agreement and Request for Proposals (RFP) material, if applicable, for further requirements.

2.04 Suspension

By entering into any agreement with Minnesota Housing, a contracting party represents that the contracting party (including its employees or affiliates that will have direct control over the subject of the agreement) has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing's website for a list of suspended individuals and organizations.

2.05 Disclosure and Reporting

Activities required to be reported under this chapter may be made in any of the following ways:

- Minnesota Housing's Chief Risk Officer
- Any member of Minnesota Housing's Senior Leadership Team
- The Minnesota Housing hotline reporting service vendor, EthicsPoint, by calling toll-free 866.886.1274 to speak with a live operator or by visiting the EthicsPoint reporting webpage

Chapter 3 – Borrower Eligibility

3.01 Borrower

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

3.02 Borrower Age

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

3.03 Co-signers

Co-signer(s) are allowed when the income and credit history of the co-signer(s) are to be included for the purpose of qualifying the Borrower(s) for the loan pursuant to section 5.06 of this Procedural Manual.

Co-signer(s)' credit scores must meet or exceed the Borrower minimum credit scores specified in section 3.07 of this Procedural Manual.

The Fix Up Loan Note and application must be fully executed by the Borrower(s) and Co-signer(s).

3.04 Unauthorized Compensation

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

3.05 Ownership Interest

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

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

Eligible forms of ownership interest include the following:

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

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

- Shares in a Cooperative Corporation;
- Ownership by any form of trust except Community Land Trust and individual home-site lease assignments on tribal trust land; and

- Ownership subject to a reverse mortgage (except that unsecured loans may be made to a Borrower(s) whose ownership interest is subject to a reverse mortgage and when the Borrower(s) agree to automatic monthly payments to the Fix Up loan servicer).

Title may be held in the following ways:

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

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

Unsecured Loans
The Borrower(s) ownership interest must be documented using the most recent property tax statement.

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

3.06 Principal Residence/Occupancy Requirement

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

3.07 Credit Scores and Requirements

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

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

- All documentation used as a basis for credit underwriting of the loan must be dated within 120 days of loan closing. This includes documentation relative to credit reporting and income verification.

- The Borrower(s), Co-Borrower(s), and Co-signer(s) must meet the minimum credit scores as follows:
  - Secured loan – minimum credit score of 620.
  - Unsecured loan – minimum credit score of 680.
- The Borrower(s), Co-Borrower(s), and Co-signer(s) requesting an unsecured loan must have a credit score(s) and those credit score(s) must be at least 680. Alternative credit sources may not be used to offset unavailable credit scores for a Borrower requesting an unsecured loan.
- If the Borrower is requesting a secured loan and the credit report(s) for the Borrower(s), Co-Borrower(s), and Co-signer(s) indicate the credit score(s) are unavailable, the credit report(s) documenting no score(s) must be retained in the loan file; and
  - The Lender must establish an alternative credit history clearly documenting routine consistent payments were made as agreed during the most recent preceding 6-month period from at least three of the following:
    - Mortgage lenders, contract for deed vendors, or others able to verify housing expense and payment history[2];
    - Public utilities;
    - Telephone companies;
    - Cable television providers; or
    - Internet providers.
- All qualifying income used in calculating the monthly debt to gross income ratio (DTI) must be stable and likely to continue. Further, documentation that the income used to qualify the Borrower(s) is stable and likely to continue must be obtained and retained in the loan file.
- The Borrower(s)' monthly DTI may not exceed 48% unless there is a Co-signer and:
  - The Borrower(s)' monthly DTI does not exceed 55%; and
  - The combined monthly DTI for the Borrower(s) and the Co-signer does not exceed 48%.
- If the Borrower(s) has reported, or the credit report indicates, a bankruptcy or foreclosure, the following applies:
  - Chapter 7 Bankruptcy:
    - The fact that the bankruptcy was discharged must be verified on the credit report; and
    - The Order Discharging Debtor must be dated at least 18 months before the loan closing; and
    - If the discharge date is not clearly identified on the credit report:
      - A copy of the Order Discharging Debtor must be retained in the loan file; and
      - The Order Discharging Debtor must be dated at least 18 months before the loan closing.

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

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

Note: Refer to section 4.04 of this Procedural Manual for age of property value documentation requirements.

3.08 Fix Up Loan Program Income Limits

The income used to qualify the Borrower(s) may not exceed the Fix Up Loan Program income limits posted on Minnesota Housing's website.
Income is defined by and calculated according to the Lender's credit underwriting guidelines (i.e. qualifying) income.

Exception for Accessibility Improvements:

- The Fix Up Loan Program income limits may be waived with prior written approval by Minnesota Housing when the loan proceeds will be used exclusively for Accessibility Improvements.

Exception for energy conservation improvements:

- The Fix Up Loan Program income limits are waived when the loan proceeds will be used exclusively for energy conservation improvements outlined in section 6.02 of this Procedural Manual.

3.09 Separated Spouses

All spouses must sign the mortgage, even when the Lender establishes that a spouse permanently resides outside the household.

3.10 Loans to Employees and Affiliated Parties

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

Chapter 4 – Property Eligibility

4.01 Eligible Properties Minnesota Housing

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

- Located in the State of Minnesota;
- At least 90 days old with an issued certificate of occupancy;
- A property without short term construction financing; and
- A residential property, which includes:
  - A single family detached home;
  - An individual unit in a Planned Unit Development (PUD);
  - A townhome[3];
  - A unit of a condominium[4];
  - A manufactured home permanently affixed to a foundation and taxed as real property;
  - A duplex[5];
  - A triplex[5];
  - A fourplex[5].

4.02 Manufactured Homes

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

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

Mobile homes are acceptable if they meet the following requirements:

- Must be located on land owned or being purchased by the Borrower;
- Must be on a permanent foundation with wheels and axles removed;
- All utility connections are operable so that the home is habitable;
- Unit must be assessed/taxed as real estate;
- Unit being improved meets all other eligibility requirements under this Procedural Manual; and
- Security for the loan to purchase the manufactured home is in the form of a mortgage covering the property.

[3] If the property is a townhome, only the portion of the real estate owned by the Borrower is eligible.
[4] If the property is a condominium, only the portion of the real estate owned by the Borrower is eligible.
[5] The Borrower must occupy one unit of the property.

4.03 Ineligible Properties

Properties not eligible for financing are as follows:

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

4.04 After Improved Value Limit (Equity)

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

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

- Estimated Market Value from the most recent property tax statement for the property to be improved;
- Broker's purchase price opinion based on a CMA if the following criteria applies:
    - It must be ordered by a lender; and
    - It must be completed by a disinterested third party within 120 days of the Fix Up loan closing;

Note: For further guidance, refer to Brokers Price Opinion/Competitive Market Analysis Guidance posted in the Resources section of the Fix Up Loan Program page on Minnesota Housing's website.

- The purchase price or related appraised value for the purchase of the home occurring within the past 12 months before the Fix Up loan closing
- If the Borrower(s) has/have owned the property for more than 12 months, an existing appraisal dated within the most recent preceding 12 months before the Fix Up loan closing; or
- Other methods as approved in writing by Minnesota Housing.

4.05 Right to Inspect

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

4.06 Local Ordinances and Plans

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

Chapter 5 – Loan Eligibility

5.01 Eligible Loans

General Loan Eligibility Requirements

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

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

Eligible Loan Types/Loan Amounts/Loan Terms[6]

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

The above loan repayment terms apply subject to the following:

- The maximum possible maturity on a loan in an amount less than or equal to $10,000 is 10 years.
- The maximum possible maturity for secured loans in an amount greater than $10,000 is 20 years.
- The Lender will not make a loan term for an unreasonable length of time. Final maturity of the loan will be commensurate with the Borrower's ability to pay, including such considerations as debt-to-income ratio, size of household, and qualifying Income.
- For properties secured by a mortgage or contract-for-deed, the Fix Up loan term may not extend beyond the balloon payment due date, if applicable.

[6] See also sections 5.02 and 5.12 of this Procedural Manual.

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- For tribal trust properties:
  - the loan term may not extend beyond the term of the individual home-site lease; and
  - the loan must be unsecured.

5.02 Ineligible Loans

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

- Any Fix Up or Community Fix Up loan secured by a mortgage in first lien position and having an APR that exceeds the first lien position rate published on Minnesota Housing's website by more than .49%.
- Any secured Fix Up loan or any secured Community Fix Up loan subject to a reverse mortgage.
- Any secured Fix Up loan to any Borrower(s), Co-Borrower(s), or Co-signer(s) with a minimum credit score (s) below 620.
- Any secured loan to any Borrower(s), Co-Borrower(s), or Co-signer(s) who is/are without a credit score(s) and is/are unable to establish satisfactory alternative credit with at least a 6-month history.
- Unsecured loans to a Borrower(s), Co-Borrower(s), or Co-signer(s) that have no established credit score.
- Unsecured loans to a Borrower(s), Co-Borrower(s), or Co-signer(s) with a credit score(s) below 680.
- Unsecured loans in an amount greater than $15,000 or the addition of an unsecured loan to one already existing that would cause the total outstanding unsecured Fix Up loans to exceed $15,000.
- Incentive Rate Energy Conservation and Accessibility Improvement Loans in an amount greater than $15,000 or the addition of an Incentive Rate Energy Conservation and Accessibility Improvement Loan to one already existing that would cause the total outstanding Incentive Rate Energy Conservation and Accessibility Improvement Loans to exceed $15,000.
- Secured loans on properties located on tribal trust land.
- Loans with repayment terms in excess of the terms referenced in section 5.01.

5.03 Eligible Improvements

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

- Improve the basic livability or energy efficiency of the property[7], including:
    - Structural additions;
    - Alterations;
    - Renovations and repairs; or
- Bring a property into compliance with state, county, municipal health, housing, building, fire, and housing maintenance codes or other public standards applicable to housing, including but not limited to:
    - Replacement of a well; and
    - A septic system upgrade or replacement.

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

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

Note: Further eligible and ineligible improvements may be found on the Eligible/Ineligible Improvements list, posted in the Resources section of the Fix Up Loan Program page on Minnesota Housing's website.

5.04 Ineligible Improvements

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

- Costs associated with a project which is incomplete (i.e. framing a room addition) unless accompanied by written verification of sufficient cash on deposit or approval from a supplemental funding source, to complete the project;
- Any improvement which is not a permanent fixture to the property (appliances, furniture or other personal items are not fixtures under Minnesota law);
- Payment, wholly or in part, of assessments for public improvements;
- Construction of or addition to existing residential garage space which will result in garage space per property exceeding 1,000 square feet;
- Improvements to a garage that is in excess of 1,000 square feet;
- Construction of or aesthetic improvements to recreational facilities including, but not limited to, gazebos, tennis courts, hot tubs, swimming pools, saunas;

[7] A property includes the main residence; its porch or deck; a garage not exceeding 1,000 square feet, attached or detached; any sidewalks, retaining walls or driveways within the property's boundaries as outlined in the legal description.

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

Note: Further eligible and ineligible improvements may be found on the Eligible/Ineligible Improvements list, posted in the Resources section of the Fix Up Loan Program page on Minnesota Housing's website.

5.05 Bids and Estimates for Improvements

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

5.06 Credit Requirements

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

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

- All documentation used as a basis for credit underwriting of the loan must be dated within 120 days of loan closing. This includes documentation relative to credit reporting and income verification.
- The Borrower(s), Co-Borrower(s), and Co-signer(s) must meet the minimum credit scores established in section 3.07 of this Procedural Manual as follows:
  - Secured loan – minimum credit score of 620.
  - Unsecured loan – minimum credit score of 680.

- The Borrower(s), Co-Borrower(s), and Co-signer(s) requesting an unsecured loan must have a credit score(s) and those credit score(s) must be at least 680.
- If the credit report(s) for the Borrower(s), Co-Borrower(s), and Co-signer(s) indicate the credit score(s) are unavailable, the credit report(s) documenting no score(s) must be retained in the loan file; and
    - The Lender must establish an alternative credit history clearly documenting routine consistent payments were made as agreed during the most recent preceding 6-month period from at least three of the following:
        - Mortgage lenders, contract for deed vendors, or others able to verify housing expense and payment history[8];
        - Public utilities;
        - Telephone companies;
        - Cable television providers; or
        - Internet providers.
- All qualifying income used in calculating the monthly debt to gross income ratio (DTI) must be stable and likely to continue. Further, documentation that the income used to qualify the Borrower(s) is stable and likely to continue must be obtained and retained in the loan file.
- The Borrower(s)' monthly DTI may not exceed 48% unless there is a Co-signer and:
    - The Borrower(s)' monthly DTI does not exceed 55%; and
    - The combined monthly DTI for the Borrower(s) and the Co-signer does not exceed 48%.
- If the Borrower(s) has reported, or the credit report indicates, a bankruptcy or foreclosure, the following applies:
    - Chapter 7 Bankruptcy:
        - The fact that the bankruptcy was discharged must be verified on the credit report; and
        - The Order Discharging Debtor must be dated at least 18 months before the loan closing; and
        - If the discharge date is not clearly identified on the credit report:
            - A copy of the Order Discharging Debtor must be retained in the loan file; and
            - The Order Discharging Debtor must be dated at least 18 months before the loan closing.
    - Chapter 13 Bankruptcy:
        - The completion of repayment plan must be verified on the credit report; and
        - The date of completion of the repayment plan must be at least 18 months before the loan closing; and
        - If the completion date is not clearly identified on the credit report:

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

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- ♦ The Trustee must provide written verification that the repayment of debt was completed; and
- ♦ A copy of the written verification of Chapter 13 Bankruptcy completion must be retained in the loan file.

- Foreclosure
  - The date of completion of the redemption period for the foreclosure must be at least 18 months before the loan closing; and
  - Written verification of completion of the redemption period must be retained in the loan file.

Note: Refer to section 4.04 of this Procedural Manual for age of property value documentation requirements.

5.07 Homeowner Labor

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

Note: Homeowners cannot complete labor with the Incentive Rate Energy Conservation loan option.

5.08 Interest Rate/Payment Requirements General Interest Rate and Payment Information

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

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

Secured Loans and Unsecured Loans without Monthly Automatic Payments
Level monthly payments are required with the first payment due date to be 20 to 45 days following the Fix Up Loan Note date. The monthly payment is to be based on the loan amount, loan term and loan interest rate.

Loans with Monthly Automatic Payments (excluding Incentive Rate Energy Conservation and Accessibility Improvement Loans)

- The interest rate is the rate posted on Minnesota Housing's website and is below the rate for a loan without monthly automatic payments.
- Monthly automatic payments require that the Borrower complete the Authorization Agreement for Monthly Automatic Payment[9]. The Resources section of the Fix Up Forms page of Minnesota Housing's website contains a link to this form.
- The Borrowers may choose to have the loan payment deducted from either a checking or savings account.
- The Lender must submit a void blank check or savings account deposit slip with the executed Authorization Agreement for Monthly Automatic Payment within 5 days of purchase approval. (section 8.02)
- Level monthly payments are required with the first payment due date to be 20 to 45 days following the Fix Up Loan Note date.
- The choices for payment draft dates on the Authorization Agreement for Monthly Automatic Payment are the 5th, 10th, 15th, or 20th of the month. Borrowers must choose either the payment due date or a date preceding the payment due date as the draft date. If no date is chosen, the draft date is the 5th of each month.
- If three or more payments are rejected or returned through the Monthly Automatic Payments system within a year, or if the Borrower voluntarily terminates participation in the Monthly Automatic Payment Program, Minnesota Housing may immediately and permanently increase the interest rate on the loan to the rate applicable for loans without automatic payments on the loan commitment date.

5.09 Conventional Loans

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

[9] AmeriNat (Servicer) form.

5.10 Refinancing

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

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

5.11 Maximum Outstanding Loan Limit

Total to Any One Property

- The total of outstanding and any new Minnesota Housing Fix Up, Community Fix Up, Incentive Rate Energy Conservation and Accessibility Improvement Loans, may not exceed $50,000. The Lender must verify the outstanding Minnesota Housing loan balance for the improvement of any one property does not exceed the limit.

Total to Any One Borrower

- The total of Fix Up unsecured loans that a Borrower(s) may have outstanding at one time may not exceed $15,000.
- The total of Incentive Rate Energy Conservation and Accessibility Improvement Loans that a Borrower(s) may have outstanding at one time may not exceed $15,000.

5.12 Closing Costs and Pre-Paid Finance Charges

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

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

5.13 Non-Complying Loans

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

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

5.14 Repurchase of Loans

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

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

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

Chapter 6 – Special Assistance Program Requirements

6.01 Community Fix Up

Community Fix Up loans must meet the loan requirements of the Fix Up Loan Program and the Community Fix Up initiative. The Lender is responsible to determine the Borrower meets the initiative's requirements and to verify that the value-added services and/or interest rate discount available through the specific Community Fix Up initiative is provided.

Proposals for Community Fix Up initiatives must:

1. Address and incentivize specific community rehabilitation needs that cannot be effectively met under the statewide Fix Up Loan Program,
2. Provide or partner with community organizations (such as non-profits, utility companies, local governments, housing and economic development authorities) to provide:
    - Leveraged funds in the form of discounted interest rates or matching funds; or
    - Other value-added services or incentives such as donated rehabilitation advising, energy conservation rebates, or translation services
    - A Loan Loss Reserve Fund
3. Include a written plan for targeted outreach and marketing

The Lender and their community partner(s) (if applicable) must submit a Community Fix Up proposal for their initiative. Minnesota Housing staff will review and approve proposals on an ongoing basis. A pool of funds is available to the approved initiative for two years as long as the Fix Up Loan Program funding remains available and the Lender remains in good standing with Minnesota Housing.

- Discount Loan Initiatives:
    - Provides Lenders with the ability to offer alternative interest rates under the Community Fix Up Loan Program using leveraged funds to buy down the current program rate.
    - Minnesota Housing reimburses the Lender for the loan principal and processing fee and the loan is serviced at the rate and payment amount indicated on the Fix Up Loan Note.
- Value Added Services:
    - The Lender provides value-added services or partners with non-profit or governmental organizations offering value-added services to address community needs.
- Loan Loss Reserve Fund
    - The Lender is able to fund a Loan Loss Reserve as approved by Minnesota Housing.

6.02 Incentive Rate Energy Conservation and Accessibility Improvement Loans

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

- Eligible improvements for Energy Conservation Loans must meet Energy Star® requirements and are limited to:
  - Window replacement with Energy Star® Windows
  - Heating system replacement;
  - Central air conditioning replacement;
  - Water heater replacement;
  - Light fixture replacement; or
  - Insulation/attic air sealing.
- Because Energy Star® requirements change over time, the Lenders must refer to the Fix Up Loan Program Incentive Rate Energy Conservation and Accessibility Improvement Loan improvements list that may be accessed on Minnesota Housing's website for the specific, technical requirements of eligible energy improvements.
- Eligible Accessibility Improvements for reduced rate loans include but are not limited to:
  - Construction entrance or exit ramps;
  - Widening interior or exterior doors or hallways;
  - Moving electrical outlets and switches;
  - Installing or modifying fire alarms, smoke detectors and other alerting systems;
  - Installing handrails, grab bars or stairway lifts; or
  - Modifying hardware, doors or bathrooms.
- For other Accessibility Improvements not listed above, the Accessibility Evaluation for Reduced Interest Rate form must be used to document the accessibility needs of the Borrower(s). The Accessibility Evaluation for Reduced Interest Rate form must be submitted to Minnesota Housing for approval before commitment.

For requirements pertaining to waiver Fix Up Loan Program income limits, refer to section 3.08.

For requirements pertaining to loan amount minimums and maximums as well as loan term minimums and maximums, refer to section 5.01 of this Procedural Manual.

Chapter 7 – Commitment/Disbursement

See Minnesota Housing's website for:

- The Rate Lock Guide
- The Loan Commitment System Process Guide

Chapter 8 – Documentation Requirements

8.01 Loan Processing and Closing

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

- Loans must be closed and disbursed before completing the True and Certify process in the Minnesota Housing Loan Commitment System;
- Loans must be current as to monthly payments;
- The Lender must follow Minnesota Housing and all industry standard regulatory and compliance provisions throughout the processing of the loan;
- All loan documents must be on Minnesota Housing forms or industry standard forms that meet Minnesota Housing requirements;
- Minnesota Housing or industry standard forms may not be altered in any way other than to add a company name and logo;
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and appropriate stages of the loan;
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that locked the loan(s) on the Minnesota Housing loan commitment system;
- All assignments must run directly from the Lender to Minnesota Housing; and
- All assignments must use the Minnesota Uniform Conveyancing Blank.

8.02 Minnesota Housing Documentation/Delivery Requirements

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

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

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

8.03 Signature Requirements

Fix Up Loan Note

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

Mortgage

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

8.04 Records Retention

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

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

Chapter 9 - Servicing

9.01 Servicing

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

9.02 Delivery of Loans to Servicer

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

9.03 Assumption

Loans are not assumable.

9.04 Due on Sale

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

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

Appendix A: Definitions

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

TERM	**DEFINITION**
Accommodation Party	An owner of the property who is not a Borrower on the Fix Up Loan Note, such as a non-borrowing spouse or a contract-for- deed vendor.
Accessibility Improvement	An interior or exterior improvement or modification to a property, which is necessary to enable a resident or a Borrower with a permanent physical or mental condition that substantially limits one or more major life activities to function in that property.
Dealer Loan	A loan where an intermediary such as a contractor, salesman or materials supplier, having a financial interest in the contract for the repair, alteration, or improvement of the Borrower's property, intervenes or participates in the application for or disbursement of the loan.
Direct Loan	A loan applied for by, and disbursed to the Borrower; and where the Credit Application, signed by the Borrower is filled out by: A. The Borrower; or, B. A maker of the Fix Up Loan Note other than a Borrower; or, C. A person acting at the direction of a Borrower who has no financial interest, directly or indirectly, in the contract for the repair, alteration, or improvement of the Borrower's property.
Incentive Rate Energy Conservation and Accessibility Improvement Loans	Those loans referenced in section 6.02 of this Procedural Manual. (As opposed to the Regular Secured Accessibility Loan under the Fix Up Loan Program.)

TERM	DEFINITION
Lender	A lender under contract to participate in Minnesota Housing programs.
Minnesota Housing Program Underwriting Income	Gross annual income that is verified and documented as stable and likely to continue. This income is used to determine: • the Debt-to-Income Ratio for the Borrower(s) and Co-signer(s); and • whether approving the loan application constitutes a prudent investment risk.
Order Discharging Debtor	The notice filed with the Bankruptcy Court proving the bankruptcy case was successfully completed and all debt was discharged. **Note:** If the bankruptcy case is dismissed, it means that something went wrong with the case and the debts are still owed to the creditors.
Participation Agreement	The Participation Agreement for Minnesota Housing Home Improvement Loan Program executed between the Lender and Minnesota Housing that allows the Lender to participate and offer Minnesota Housing's Fix Up loan program.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and their household.
True and Certify	The loan-level process in Minnesota Housing's loan commitment system completed by the Lender that certifies all the information entered into the system is true and accurate.

Appendix B: Forms List

See www.mnhousing.gov for required Fix Up Loan Program forms as well as optional forms.