MEETINGS SCHEDULED FOR APRIL

Location:

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

THURSDAY, APRIL 24, 2014

Finance and Audit Committee Meeting
Jelatis Conference Room – Third Floor
11:30 a.m.

Regular Board Meeting
State Street Conference Room – First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, April 24, 2014.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Equal Opportunity Housing and Equal Opportunity Employment

DATE: April 17, 2014

TO: Minnesota Housing Board Members

FROM: Mary Tingerthal
Commissioner

SUBJECT: **FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **11:30 a.m.,** on **Thursday, April 24** at the offices of Minnesota Housing, 400 Sibley Street, Suite 300, St. Paul, 55101 in the **Jelatis Conference Room on the third floor**.

The topic for discussion at this meeting is:

A. Audit Risk Assessment Standards and Audit Planning

All members are invited to attend.

If you have questions, please call Becky Schack at (651) 296-2172.

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AGENDA ITEM: A
MINNESOTA HOUSING FINANCE & AUDIT COMMITTEE MEETING
April 24, 2014

ITEM: Audit Risk Assessment Standards and Audit Planning

CONTACT: Terry Schwartz, 651-296-2404
terry.schwartz@state.mn.us

Bill Kapphahn, 651-215-5972
william.kapphahn@state.mn.us

REQUEST:

☐ Approval ☑ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
Representative from McGladrey LLP, the Agency's external audit firm, will discuss audit risk assessment standards and audit planning for the 2014 engagement.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- McGladrey presentation

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Presentation to the Audit Committee
Minnesota Housing Finance Agency

April 24, 2014

Audit Planning Communication

McGladrey

Assurance ▪ Tax ▪ Consulting

Engagement Team

- Public Sector
  - Corey Topp – Client Service Partner
  - Nathan Oliver – Public Sector Manager
  - Nate Birr – Public Sector Incharge
- Financial Institutions
  - Hank Donatell – Director
  - Dave Antonson – Manager
  - Rachel Jurgens – Incharge
- Information Technology
  - Greg Schu – Partner

McGladrey

Summary of Engagement Terms

- Our audit procedures are designed to:
  - Provide reasonable assurance that the financial statements are free of material misstatement.
  - Satisfy the requirements of *Government Auditing Standards*.
  - Satisfy the audit requirements imposed by the Single Audit Act and the U.S. Office of Management and Budget (OMB) Circular No. A-133.
  - Address management's initial selection of, and changes in, significant accounting policies or their application; methods used to account for significant unusual transactions; and the effect of significant accounting policies in emerging areas.
  - Focus on accounting estimates that are particularly sensitive to the financial statements based on their significance and level of management judgment.
  - Communicate any disagreements with management about matters that could be significant to the financial statements.

McGladrey

Summary of Engagement Terms *(continued)*

- Our audit procedures are designed to (continued):
  - Alert the Audit Committee of any significant errors, fraud or illegal acts identified during our audits.
  - Communicate adjustments, whether or not recorded by Minnesota Housing, that could, either individually or in the aggregate, have a significant effect on the Minnesota Housing's financial reporting process.
  - Communicate significant deficiencies and material weaknesses identified through our review of internal control over financial reporting.
- We will make the Audit Committee aware of significant written communications between McGladrey and Minnesota Housing during the year.
- We do not anticipate any scope limitations which would cause us to qualify our audit opinions.
- Minnesota Housing will be considered to be a low-risk auditee for purposes of the performance of the A-133 audit.

McGladrey

Auditor’s Independence

Commitment to Independence

- McGladrey LLP employs a comprehensive, multi-faceted approach to maintaining independence.
- Key components:
  - Culture that stresses the importance of independence
  - Pervasive consultation and monitoring processes
  - Strong policies that are clearly communicated
  - Chief Ethics and Compliance Officer reports to CEO and Board of Directors
  - Training for all partners, principals and professionals
  - Restricted entity list and electronic tracking of personal financial holdings
  - Annual representations from partners, principals and employees
  - Internal inspection and audit process for compliance with policies
  - Disciplinary process for noncompliance
- 2011 Revision of Government Auditing Standards

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Audit Services Scope

- Communication to the Audit Committee
- Financial report
- Single audit report
- Control deficiencies and business improvement suggestions
- Information systems analysis

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Audit Timing

Audit Activities	Timing
Audit Committee meeting to discuss audit plan	April 2014
Audit planning and preliminary procedures	May 2014
Internal control procedures	May 2014
Test of controls and compliance (A-133 audit)	July/August 2014
Final audit fieldwork & reporting	August 2014
Final reports due for mailing with Board agenda items	August 19, 2014
Board of Directors meeting to present 2014 audit results	August 28, 2014

Audit Strategies

- Audit Efficiencies
  - Information Technology
  - Engagement team
  - Timing
- Concurring reviewers
  - Timing of involvement
- Accounting requirements versus partner requirements
  - Identification and resolution

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Key Transactions / Risks

- Financial Statements
  - Revenue recognition
  - Management override of controls
  - Information system assessment
  - Loans receivable
  - Interest rate swap agreements
  - Adoption of GASB Statement No. 65
- Single Audit
  - Scrutiny by regulators and funding sources
  - Two major programs for 2014
    - Home Investment Partnership Program
    - Housing Choice Voucher Cluster

McGladrey

Fraud Risk Factors

- As required by AU Section 316, McGladrey LLP, with the assistance of management and the Audit Committee, will compile a listing of potential fraud risk factors specific to Minnesota Housing.

- Major criteria considered:
  - Areas more likely susceptible to fraud
  - Materiality
  - Financial performance versus budget and prior year
  - Revenue recognition policies and procedures
  - Significant judgments and estimates
  - Management structure and any changes
  - General systems environment
  - Current market and industry conditions
  - Understanding of business and history of errors

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Adoption of Accounting Standards

Required to be adopted in 2014

- GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities.*
  - Deferred financing costs to be written off. Deferred gains(losses) on debt refundings to be reclassed as deferred inflows and outflows. Unavailable revenues to be reclassed as deferred inflows.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* To be adopted in 2014.
  - No impact expected based on current Minnesota Housing activity.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* To be adopted in 2014.
  - No impact expected based on current Minnesota Housing activity.

Required to be adopted

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* To be adopted in 2015.
  - Minnesota Housing will be required to recognize a liability for its portion of the unfunded liability in state multi-employer pension plans

Exposure drafts: Pension Accounting, Measurement of Elements of Financial Statements, Fair Value Measurement and Application, Economic Condition Reporting

McGladrey

General Comments & Feedback

Thank you for allowing us to serve Minnesota Housing Finance Agency

Our goal is to not only meet, but exceed, your expectations.

Your feedback is important to us in achieving that goal.

Presented by: Corey Topp, Hank Donatell and Nathan Oliver

McGladrey

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Equal Opportunity Housing and Equal Opportunity Employment

AGENDA
Minnesota Housing Finance Agency
Board Meeting
Thursday, April 24, 2014
1:00 p.m.

State Street Conference Room – First Floor
400 Sibley Street, St. Paul, Minnesota 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of March 27, 2014
5. **Reports**
   A. Chair
   B. Commissioner
   C. Finance and Audit Committee Meeting of Thursday, April 24
6. **Consent Agenda**
   A. Modification, Capacity Building Revolving Loan Program
      - Greater Metropolitan Housing Corporation (GMHC)
   B. Changes, Fix Up Loan Program Procedural Manual
   C. Selections, Community Fix Up Loan Program
   D. Funding Modification
      - West Broadway Crescent, Minneapolis D7604
7. **Action Items**
   A. Program Concept, Targeted Mortgage Opportunity Program
   B. Program Concept, Enhanced Financial Capacity Homeownership Initiative
   C. Revised Community Homeownership Impact Fund Procedural Manual
   D. Housing Trust Fund (HTF) Rental Assistance for Hennepin County Young Families Pilot
   E. Amendment to the 2014 Affordable Housing Plan (AHP): Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs
   F. Selection and Commitment, Low and Moderate Income Rental (LMIR) Program
      - Northpoint Townhomes, Aitkin, D0005
   G. Selection and Commitment, Financing Adjustment Factor (FAF) Loan
      - Hickory Ridge Townhomes, Maple Grove, D0753
   H. Selection and Commitment, Financing Adjustment (FA) Loan
      - Glenwood Manor, Glenwood, D0579
   I. Housing Tax Credit (HTC) Program – 2014 Round 2 Selections and Waiting List

J. Approval, Qualified Allocation Plan (QAP) and Procedural Manual, 2016 Housing Tax Credit (HTC) Program

8. Discussion Items

None.

9. Informational Items

A. Post-Sale Report, Residential Housing Finance Bonds, 2014 Series A

B. Post Sale Report, State Appropriation (Housing Infrastructure) Bonds 2013 Series A & B

C. Report of Action Under Delegated Authority

- Waiver of Agency Program Requirements, Quick Start Disaster Recovery Program

10. Other Business

11. Adjournment

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, March 27, 2014
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
Vice Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:01 p.m.
2. **Roll Call.**
Members present: Gloria Bostrom, John DeCramer, Joe Johnson, Steve Johnson, Stephanie Klinzing, Celeste Grant for State Auditor Rebecca Otto. Absent: Ken Johnson.
Minnesota Housing staff present: Kim Bailey, Paula Beck, Rachel Bolstad, Laura Boerger, Phil Hagelberger, Mike Haley, Karen Hassan, Bill Kapphahn, Kurt Keena, Marcia Kolb, Diana Lund, Shannon Myers, John Patterson, Devon Pohlman, Leslee Post, John Rocker, Megan Ryan, Kayla Schuchman, Barb Sporlein, Emily Strong, Kim Stuart, Julie Tarlizzo, Will Thompson, Rob Tietz, Dan Walsh, Xia Yang.
Others present: Paul Rebholz, Wells Fargo; Chip Halbach, Minnesota Housing Partnership; Tom O'Hern, Office of the Attorney General.
3. **Agenda Review**
Vice Chair Joe Johnson stated that there had been a revision to the minutes to delete an incomplete sentence. There were no changes to the agenda.
4. **Approval of the Minutes.**
A. Regular Meeting of February 27, 2014
Stephanie Klinzing moved approval of the minutes as revised. Steve Johnson seconded the motion. Motion carries 5-0, with Ms. Bostrom abstaining.
5. **Reports**
A. Chair
There was no chairman's report.
B. Commissioner
Commissioner Tingerthal reported that the legislature has been busy with the tax reform bill and will now begin to focus on the bonding bill, which is moving well in both houses. Commissioner Tingerthal shared that she spoke earlier that morning at an event for the Homes for All Alliance, which is an organization comprised of multiple housing advocacy groups that speaks with one voice for the inclusion of housing in the bonding bill.

Commissioner Tingerthal stated that the Governor has recommended $40 million in Housing Infrastructure Bonds (HIB) and $10 million in General Obligation (Go) Bonds for improvements to publically owned housing. Two years ago, the Governor recommended $30 million and $5.5 million, respectively, for these uses. The advocate's bill, which has been sponsored in both the house and the senate, is seeking $80 million in HIBs and $20 million in GO bonds. Commissioner Tingerthal stated that the bonding bill will not be negotiated until the very end of the session, but she would keep the board informed about its status.

The Commissioner stated that Congress is in a busy period as well. She and Federal Liaison Jim Cegla spent three days in Washington, D.C. in early March meeting with members of the congressional delegation and their staff. Tingerthal added that it was an interesting time to be there because House Ways and Means Committee Chair Camp had just released his tax reform paper, in which he calls for changes to the 9% low income housing tax credit that would shrink the size of the program and also calls for the discontinuation of private activity bonds. Commissioner Tingerthal stated that these suggestions are troubling because the Agency uses private activity bonds to bring equity to projects through the 4% tax credit. The Housing Finance Agency (HFA) community does not feel the suggestions in the paper will go anywhere but it does warrant careful attention because it does provide a laundry list of items and includes the tax savings for each of item, which could cause it to be used as guidance for picking off programs. Shortly after the staff trip to Washington, the Crapo-Johnson bill for government sponsored entity (GSE) reform was released. This bill includes things to like but does not include much support for supportive housing through the Housing Trust Fund and there also are provisions that do not make it clear what role, if any, housing finance agencies would play. The National Council of State Housing Agencies (NCSHA) is pulling together comments and staff will be in contact with the Minnesota congressional delegation. It is not known if GSE reform will gain moment but the matter will continue to be watched carefully and the Agency will work with NCSHA to ensure it is at the table if and when those dialogues occur.

Responding to a question from Ms. Bostrom, Commissioner Tingerthal stated that private activity bonds were just one of many items included on Chairman Camp's list and there has been a lot of speculation about why it was included. In years where there has not been a lot of competition, there has been unused volume cap and there may be a thought that the tool is not needed.

Looking to the future where there may not be Fannie or Freddie, NCSHA has started two taskforces, the first of which is pursuing a contract with a data analysis firm to work with HFAs to aggregate and analyze data from recent years of originations to be able to tell the true story of HFA single family mortgage performance. There currently is a lot of anecdotal evidence but no aggregation because HFAs all issue their own bonds and have their own data. The taskforce has received good proposals and will meet next week to select a proposal. The Agency has been involved since the beginning of this effort and is prepared to share its data for the overall national effort.

The second taskforce is having discussions about a possible new environment where multiple entities may receive permission to utilize the federal backstop in terms of credit enhancement. In this environment, there may be a case to be made to have an HFA platform for securitizing loans and utilizing the federal backstop. These discussions are very preliminary and the thought is that it's good discipline for HFAs to talk about what it may mean if that type of a future does start to unfold. The Agency is thinking systematically about how HFAs will need to position themselves to be relevant players in the future.

Commissioner Tingerthal next walked members through the Agency's new annual report and program assessment. Commissioner Tingerthal shared that the Agency has several statutory obligations for reporting and many years ago decided to create an annual report and assessment rather than to send multiple reports to the legislature. The Agency has found it both effective and helpful to put those required reports into the context of an annual report.

The following employee introductions were made:

- Karen Hassan introduced Rachel Boerger, who has joined the TRACs team. Ms. Boerger has a BS in family and social sciences from the University of Minnesota and was most recently employed with a property management company where she was the compliance manager and subsidized housing manager.

- Shannon Myers introduced Lori Berg, who has joined the Agency as a multifamily operations specialist. Ms. Berg holds an MBA and has employment history in education and in the private sector.

- Julie Tarlizzo introduced Denise Gulner, who has joined the Agency as a draw technician in the legal department. Ms. Gulner holds degrees from the University of Dallas and Trinity Valley and has 15 years of real estate experience, most recently as a closer with Wells Fargo.

Commissioner Tingerthal requested a meeting of the finance and audit committee for April 24. Commissioner Tingerthal stated this meeting would be the initial pre-audit planning with McGladrey and that Becky would contact members to schedule the committee meeting.

C. Committee

There were no committee reports.

6. Consent Agenda

A. Modification, 2014 Annual Action Plan

B. Modification, Bridges Rental Assistance Program; Supplemental Funding

C. 2014-15 Funding Recommendation, Family Homelessness Prevention and Assistance Program (FHPAP)

MOTION: Ms. Bostrom moved approval of the consent agenda and the adoption of Resolutions No. MHFA 14-009 and 14-010. Mr. Steve Johnson seconded the motion. Motion carries 6-0.

7. Action Items

A. Selection and Commitment, Preservation Affordable Rental Investment Fund (PARIF) Program - Maryland Park Apartments, Saint Paul, D3475

Mr. Dan Walsh presented this request, stating that the approval of the funding would allow for major renovations to the project and puts the Agency in a better position to receive repayment in the future. Mr. Walsh added that the investment furthers the Agency's strategic priority of preserving federally subsidized housing, as the complex has 143 units with project based Section 8, and leverages a present value of $9.3 million in rental assistance payments over the 30-year mortgage term.

In response to a question from Mr. DeCramer, Mr. Walsh stated that the replacement of the patio doors is a critical item on which the team has been working and the architect for the project is comfortable that the replacement will occur either through per unit pricing for replacement or through the construction contingency funding. Mr. Joe Johnson expressed concern that the proposed per unit costs appear to be small for the identified scope. Mr. Walsh responded by stating there was concern that the budget was not matching up with the scope. In the past two weeks, the architect has reviewed the bid package and, given the experience of the development team and the contractor, Agency staff is confident in moving forward with the proposed funding amount. The staff architect will continue to monitor both the broad budget number as well as the patio doors, in addition to a few minor items, to ensure that the rehabilitation is comprehensive in scope and addresses all needs. **MOTION:** Mr. John DeCramer moved approval of this item and adoption of Resolution No. MHFA 14-011. Ms. Klinzing seconded the motion. Motion carries 6-0.

B. Selection and Commitment, Financing Adjustment (FA) Loan - Hillside Terrace, Monticello, D0998

Ms. Caryn Polito presented this request, which would allow the building owner to share in the savings resulting from refunding higher rate bonds. The proceeds would be used for deferred maintenance and the building is required to remain in the Section 8 program while the loan is outstanding. **MOTION:** Ms. Bostrom moved approval of this request and adoption of Resolution No. MHFA 14-012. Mr. DeCramer seconded the motion. Motion carries 6-0.

C. Selection and Commitment, Financing Adjustment (FA) Loan - Kimberly Meadows, Plymouth, D1138

Ms. Caryn Polito presented this request to provide financing adjustment savings to fund capital improvements to the property. If approved, the property must remain in the Section 8 program until the loan is forgiven in 2049. **MOTION:** Ms. Klinzing moved approval of the request and adoption of Resolution No. MHFA 14-013. Mr. Steve Johnson seconded the motion. Motion carries 6-0.

D. Modification, HOME Affordable Rental Preservation (HARP) Program - Ebenezer Towers, Minneapolis D3370

Mr. John Rocker presented this request, stating that there was an increase to the scope of work for the project followed a room-by-room inspection of the property. Mr. Rocker also informed the Board of a correction to the total commitment figure, which in the report was listed as $21,1888.312 and should have read $21,183,312. Ms. Bostrom commented that it was unusual to have such a large increase and inquired why the Federal Home Loan Bank did not approve the application. Mr. Rocker stated that the project did not meet the funding priorities of the FHLB's funding round. Mr. Rocker added that the project is a top priority for Minneapolis and was the Agency's top scoring project. Mr. Rocker stated that, due to the physical deterioration of the property, staff feels it is important to keep the project moving and not wait for another FHLB loan application process. In response to another question from Ms. Bostrom, Mr. Rocker stated that the property is being transferred at fair market value to a limited partnership and a note will be taken that will be repaid over the long term with cash flow. **MOTION:** Ms. Celeste Grant moved approval of this request and adoption of Resolution No. MHFA 14-014. Mr. Steve Johnson seconded the motion. Motion carries 6-0.

E. Selection and Commitments, 2012 Multifamily Flood Recovery Program and Ending Long Term Homelessness Initiative Fund (ELHIF) and Housing Trust Fund (HTF) Operating Subsidy Grants - Seaway Apartments, Duluth D7627

Mr. Phil Hagelberger presented this request for funding for Seaway Place, a building that serves a troubled population to whom other owners are unwilling to rent. The building was owned by a private investor who was uninterested in maintaining the property and Agency staff have been working since 2012 to resolve issues surrounding maintenance and ownership and have determined that the best plan at this time is to facilitate a purchase of the property by the city of Duluth, who will ensure proper management and services, until a suitable long-term owner is found. In response to a question from Ms. Bostrom, Mr. Hagelberger stated that the legislature approved funds for single family and multifamily flood recovery efforts in Duluth and Seaway Apartments was the only property that qualified for multifamily recovery funding. Two other applications were received but those owners were not willing to complete the Small Business Administration loan applications required to receive funding. In response to a question from Mr. DeCramer, Mr. Hagelberger stated that the Duluth HRA has owned several properties but this is this first time they will have acquired a troubled property. Commissioner Tingerthal added that Mr. Hagelberger, Assistant Commissioner Kolb and many other Agency staff have worked very hard to come to a solution for this property because had they not it, would have meant a large number of very low income vulnerable adults would be without a place to live. The Commissioner stated that she wanted to emphasize that this is not a permanent solution and that this is a building where it may not be possible to make the level of investment needed to make it a truly viable property for the long-term. The action sought today is a short term fix but the cost of making the improvements to make Seaway Apartments a viable place to people to live compared with the cost of rehousing the residents, staff felt this proposal was the best course of action given a very difficult set of circumstances. **MOTION:** Mr. John DeCramer moved approval of this request and the adoption of Resolutions No. MHFA 14-015 and 14-016. Ms. Bostrom seconded the motion. Motion carries 5-0, with Mr. Joe Johnson recusing himself.

F. Amended 2014/2015 Housing Tax Credit (HTC) Program Qualified Allocation Plan (QAP) and Procedural Manual

Ms. Kayla Schuchman requested final approval of these amendments, which address clarification of scoring and revision of the geographic priority methodology. Ms. Schuchman added that, following a preliminary approval by the board, a public hearing was held and no comments were received. **MOTION:** Ms. Klinzing moved approval of the amendments. Ms. Grant seconded the motion. Motion carries 6-0.

G. Approval, Changes, Deferred Payment Loan Program

Ms. Laura Bolstad presented this request to increase the maximum loan amount and income limit and waive an administrative rule restricting conveyance. Ms. Bolstad stated that following the major program changes in 2012, staff found the deferred payment loan was not as successful in reaching traditional lower and moderate income borrowers as its predecessor program had been. Ms. Bolstad added that the recommended changes were developed based on data and lender input and that staff conducted a thorough review of the program. The result of the review found that the program had experienced a net loss of borrowers in key lower and moderate income categories due to the steep decline in production experienced after the change from the homeownership assistance fund (HAF) program to the deferred payment loan program. Following the change, production went from an average of 1,361 HAF loans each year to 202 deferred payment loans in 2013. The review also found that the deferred payment loan amount was too low. Borrower need for down payment assistance had increased as a result of the increasing cost of homeownership due to increased home prices, mortgage rates and mortgage insurance costs. The initial program design of the deferred payment loan resulted in lower income borrowers having a gap in entry costs and assistance available and there were inequitable borrower contribution levels among the Agency’s three down payment assistance programs.

Ms. Bolstad stated that increasing the income limit from 60% of area median income to 80% of area median income and increasing the maximum loan amount to 5% of purchase price, up to a maximum of $7,500 would allow the deferred payment loan program to better support the mission by better serving those traditional buyers that had been left behind in the current program structure. The changes are also expected to increase first mortgage production by an estimated $18.6 million over the next 12 months while still allowing expanded monthly payment loan production for more moderate income borrowers.

In response to a question from Ms. Bostrom, Ms. Bolstad stated that only borrowers using the Start Up program are eligible for the deferred payment loan program.

In response to a question from Ms. Bostrom regarding the rule waiver, Ms. Bolstad stated that, for a second mortgage to be allowed with an FHA mortgage, that mortgage has to follow HUD rules. A significant number of the Agency's borrowers use FHA financing and it is the primary source of financing for deferred payment loan borrowers. The HUD rule requires that there be an income limit of 115% of area median income on any second mortgage that restricts conveyance. Due to methodology differences between how HUD calculates income and how the Agency calculates income, the program became unnecessarily restrictive. Ms. Bostrom inquired if staff had previously sought a waiver of this rule and was told that they had not.

Commissioner Tingerthal added that this overlapping set of HUD rules came into place when FHA was putting into place its restrictions about which entities were allowed to offer down payment assistance in connection with an FHA mortgage and the new rules are difficult to understand, at best. Commissioner Tingerthal added that it took the Agency several months of communicating with HUD to understand which rules applied in which circumstances. Commissioner Tingerthal then thanked Kim Stuart and Tom O'Hern for their guidance in arriving at a solution to the issue.

In response to a question from Mr. Steve Johnson, Ms. Bolstad stated that the Agency had tried to set income limits within the HUD income limits in the past year but production decreased significantly as a result. Under the predecessor program, income limits were different but HUD re-interpreted their policy around the time the new programs were designed and that was why the program limit went from 80% of area median income to 60% of area median income. Under those tighter limits, the Agency saw significantly lower production and the income limit cannot be increased without approval of the administrative waiver on conveyance. **MOTION:** Ms. Gloria Bostrom moved approval of this request to increase the maximum loan amount, increase the income limit and waive an administrative rule restricting conveyance related to the Deferred Payment Loan program. Mr. Steve Johnson seconded the motion. Motion carries 6-0.

8. Discussion Items

There were no discussion items.

9. Informational Items

A. Reports of Complaints Received by Agency Chief Risk Officer

Information item. No presentation or action.

10. Other Business

Mr. John DeCramer shared that he had represented the Agency at Minnesota Habitat for Humanity's statewide conference, stating that it was a very interesting session where he had the opportunity to talk about housing and spend time with the Habitat group. Mr. DeCramer thanked Communications Director Megan Ryan for her assistance in preparing him for the event. Mr. Joe Johnson thanked Mr. DeCramer for his attendance.

11. Adjournment.

The meeting was adjourned at 2:00 p.m.

AGENDA ITEM: 6.A.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Modification, Capacity Building Revolving Loan Program, Greater Metropolitan Housing Corporation (GMHC)

CONTACT: Karen Johnson, 651-297-5146
karen.l.johnson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff recommends adoption of a resolution to extend the maturity of an existing $1 million Capacity Building Loan to Greater Metropolitan Housing Corporation (GMHC) that matures June 1, 2014 and to combine the subject loan with a second $1 million Capacity Building Loan to GMHC that matures August 6, 2016. The two loans will be consolidated into one $2 million facility under an extended maturity of September 30, 2016. The consolidated loan will accrue interest at a rate of 3% per annum.

FISCAL IMPACT:
The fiscal impact of this request is minimal. The Capacity Building Revolving Loan Program, funded out of the Housing Affordability Fund (“Pool 3”), was designed as a moderate risk revolving loan program. Prior to executing the recommended extension, the Agency must be in receipt of all accrued interest to date, estimated at $129,600.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets

☑ Prevent and end homelessness ☑ Prevent foreclosures and support community recovery

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND:
Greater Metropolitan Housing Corporation ("GMHC") has been an administrator of the Minnesota Housing Capacity Building Revolving Loan Program for nearly twenty five years through an allocation of a recoverable grant in 1990. In 2002 and 2006, the board approved two $1 million loans funded through the Housing Affordability Fund (Pool 3) to GMHC to deliver pre-development loan funds to nonprofit organizations throughout the Twin Cities metropolitan communities. These loans are part of GMHC's $10.9 million pre-development lending pool. GMHC has $400,000 of equity into the pool coming from Minnesota Housing's forgiveness of a repayable grant in 2013.

At GMHC's request and staff's recommendation, the board previously approved extensions on each of the $1 million loans to GMHC. These extensions run through June 1, 2014 and August 6, 2016 respectively. To achieve economy in administration of these loans, staff recommends combining the loans to one $2 million facility to accrue interest at a rate of 3 percent per annum with a new maturity date of September 30, 2016. The new maturity date will allow staff time to review GMHC's FYE audit that is available in June while providing GMHC with continued access to fund its pre-development lending activities.

GMHC's $10.9 million pre-development loan pool is comprised of five commercial lenders ($5.5 million in EQ2 and PRI loans), the Family Housing Fund ($3 million) and Minnesota Housing ($2.4 million). The developments funded by GMHC's pool include a variety of affordable housing types including multifamily rental properties, elderly housing, transitional and supportive housing for families with histories of homelessness, and housing for people with special needs. In 2012, GMHC approved commitments totaled $1.7 million for the development of 859 affordable housing units.

In addition to the $2 million in Capacity Building loans directly with GMHC, Minnesota Housing has a $10 million loan to the Family Housing Fund which it passes through to GMHC. GMHC uses this credit facility to further its foreclosure recovery line of business, through which it acquires foreclosed properties, renovates them and re-sells them to qualifying homeowners. That loan will mature in June of 2015 and will be subject to Board review at that time. In addition, Minnesota Housing has a $10.4 million facility to GMHC's subsidiary "SHOP, LLC". This loan is part of a lending pool for the Bridge to Success program that makes short term contracts for deed available to entry level home buyers.

Board Agenda Item: 6.A.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street – Suite 300
Saint Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

LOAN MODIFICATION AND EXTENSION OF LOAN TERM
NON-PROFIT CAPACITY BUILDING REVOLVING LOAN PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) entered into a $1,000,000 loan agreement with Greater Metropolitan Housing Corporation (GMHC) under the Capacity Building Revolving Loan Program dated July 25, 2002 and amended the loan agreement on May 1, 2007, May 31, 2012, and December 1, 2012; and

WHEREAS, the Agency entered into a $1,000,000 loan agreement with GMHC under the Capacity Building Revolving Loan Program dated August 8, 2006 and amended the loan agreement on August 8, 2011; and

WHEREAS, it is the desire of Agency staff to consolidate those loans into one $2,000,000 credit facility loan and to modify the terms of the loan by extending the maturity date to September 30, 2016 provided all interest accrued to date has been paid; and

WHEREAS, the repayment terms of the loan is to be modified to include quarterly loan interest payments accrued at a rate of 3 percent per annum; and

WHEREAS, the pre-development loan program administered by Greater Metropolitan Housing Corporation continues to be in compliance with Minn. Stat. Ch. 462A.21, Subdivision 3a and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Agency, upon receipt of all interest accrued to date under the above described loan agreements shall be consolidated into one loan agreement, extending the maturity date to September 30, 2016 and modifying the repayment terms to include quarterly loan interest payments at a rate of 3 percent per annum.

Adopted this 24th day of April, 2014.

____

CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 6.B.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Changes, Fix Up Loan Program Procedural Manual

CONTACT: Krissi Hoffmann, 651-297-3121 krissi.hoffmann@state.mn.us
Robert Russell, 651-296-9804 robert.russell@state.mn.us

REQUEST:

- [x] Approval
- [ ] Discussion
- [ ] Information

TYPE(S)

- [ ] Administrative
- [ ] Commitment(s)
- [ ] Modification/Change
- [x] Policy
- [ ] Selection(s)
- [ ] Waiver(s)
- [ ] Other:

ACTION:

- [ ] Motion
- [ ] Resolution
- [ ] No Action Required

SUMMARY REQUEST:
Staff requests board approval for the recommended program changes to the Fix Up Loan Program described below. It is anticipated these changes will be effective April 25, 2014.

FISCAL IMPACT:
The Fix Up Loan Program is funded with Pool 2 and Pool 3 resources. The recommended program changes will guide the use of the funds allocated to Fix Up loans and should position the Agency to better serve the home improvement needs of eligible homeowners, as well as meet its production goals.

MEETING AGENCY PRIORITIES:

- [x] Promote and support successful homeownership
- [ ] Preserve federally-subsidized rental housing
- [ ] Address specific and critical needs in rental housing markets
- [ ] Prevent and end homelessness
- [ ] Prevent foreclosures and support community recovery
- [ ] Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Procedural Manual

BACKGROUND:

The Agency has offered its home improvement loan program, currently marketed as Fix Up Loan Program, continuously since 1976. It has been recognized as the most successful home improvement loan program offered by a state housing finance agency anywhere in the country. Even though program terms and conditions have changed throughout the years based on changes in the lending environment and availability of Agency funding resources, the program has been a consistent resource in assisting modest income homeowners with affordable financing for critical improvements to their homes.

The intent of the manual changes is to better align the Fix Up Loan Program with industry standards as well as clarify current policies for our lenders. While most of the changes are clarifications of current policy, there are several changes of note:

1. Borrowers will be able to finance work that has been completed and/or materials purchased in the 120 days prior to loan closing.
2. Lenders using a Brokers Price Opinion to determine eligible property value must use a disinterested third party ordered by the lender, not the borrower, and completed within 120 days of loan closing. This is in line with industry standards.
3. In cases where a Brokers Price Opinion with a Competitive Market Analysis is used, the Borrower can finance the cost, up to $150.
4. Unsecured loans may be provided to borrowers with reverse mortgage loans, but they must sign up for automatic monthly payments.

Chapter 1 – Partner Responsibilities and Warranties

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

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

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

Audited loans are reviewed for:

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

1.07 Representations and Warranties

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

- Minnesota Statute §47.20;
- Minnesota Statute §58.04;
- Minnesota Statute §325G.15 and §325G.16;
- Minnesota Statute §334.01;
- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;

- The Fair Credit Reporting Act;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Federal Trade Commission Trade Regulation Rule Concerning Preservation of Consumers' Claims and Defenses (Holder Rule), 16 CFR §433;
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth in Lending Act (Regulation Z);
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy; and
- ~~Internal Revenue Code of 1986, Section 6050H; and~~
- Real Estate Settlement and Procedures Act of 1974.

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

- Seller is the sole owner and holder of the loan with the right to assign it to Minnesota Housing;
- Seller assigns the loan free and clear of all encumbrances;
- Seller has directly or indirectly collected from the Borrower or any other person, only those fees and/or charges specifically permitted in this Procedural Manual;
- There are no defaults in complying with the terms of the mortgage;
- Seller has no knowledge of any circumstances or conditions with respect to the loan, the property to be improved or the Borrower's credit standing that could make the loan an unacceptable investment or cause the loan to become delinquent;

- The loan meets all applicable state and federal laws pertaining to usury and the loan is not usurious;
- Seller has disbursed the loan proceeds to the Borrower by cash, check, money order or crediting of a Borrower's account in such a way that the Borrower will have complete access to and control of the funds at all times;
- Seller has not advanced funds, nor induced or solicited any advance of funds by another, directly or indirectly for payment of any amount required by the loan;
- Seller has delivered and assigned a Direct Loan and has complied with all state and federal regulations to ensure the loan is not a Dealer Loan;
- Seller will maintain adequate capital and trained personnel for participation in the Fix Up program;
- The relevant requirements of any state or federal laws with respect to consumer credit, plain language consumer contracts and truth-in-lending have been satisfied;
- Any loan transaction subject to the right of rescission which has not been effectively waived, has been delivered after the rescission period has expired and the loan has not been rescinded;
- Seller has no knowledge that any improvement covered by the loan is in violation of any zoning law or regulation; and

Seller also agrees that the person who confirms on the HDS SF Web Application the Seller Representations and Warranties on behalf of the Seller is fully conversant with Minnesota Housing program requirements and has the authority to legally bind the Seller; and Seller has complied with all terms, conditions and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions and requirements have been specifically waived in writing by Minnesota Housing.

1.08 Seller Compensation

Secured Loans

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

- Processing fee of $400 for each Fix Up loan; or
- Processing fee of $400 for each Community Fix Up loan; and
- The seller may charge and the borrower may finance an origination fee of not more than 1% of the principal balance of the loan, the actual cost of the title search and flood certification, and the actual cost of document preparation not to exceed $50.
- <u>The seller may charge and the borrower may finance the actual cost of a broker's purchase price opinion based on a Competitive Market Analysis (CMA), not to exceed $150.00.</u>

- Credit investigation fees up to $15, recording fees and mortgage registration tax fees must be paid from the borrowers own funds and may not be financed in the loan amount.

Unsecured Loans

- Seller is compensated $250 for each unsecured Fix up Fund loan purchased by Minnesota Housing.[1]
- The seller may charge and the borrower may finance the actual cost of document preparation not to exceed $50.
- Credit investigation fees up to $15 must be paid from the borrowers own funds and may not be financed in the loan amount.
- There are no origination fees, title search, flood certification, recording or mortgage registration tax fees for unsecured loans.

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

Chapter 2 – Borrower Eligibility

2.05 Ownership Interest

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

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

Eligible forms of ownership interest include the following:

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

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

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

Title may be held in the following ways:

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

Secured Loans

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

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

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

Chapter 3 – Property Eligibility

3.01 Eligible Properties Minnesota Housing

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

- Located in the State of Minnesota;
- At least 90 days old with an issued certificate of occupancy;
- A property without short term construction financing; and
- A residential property, which includes:
  - A single family detached home;
  - An individual unit in a Planned Unit Development (PUD);
  - A townhome[2];
  - A unit of a condominium[3];
  - A manufactured home permanently affixed to a foundation and taxed as real property;
  - A duplex[4];
  - A triplex[5];
  - A fourplex[6].
- ~~Properties must be completed and habitable[7]:~~
  - ~~A certificate of occupancy has been issued for the property; and~~
  - ~~Any property financing is long-term (not construction financing).~~

3.04 After Improved Value Limit (Equity)

A secured ~~loan~~ Fix Up Loan, ~~will not be made in an amount which, combined with all other existing indebtedness secured by the property, exceeds 110% of the current market value of the property after adding not more than 50% of the total cost of the proposed improvements.~~ 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.

[2] If the property is a townhome, only the portion of the real estate owned by the Borrower is eligible.
[3] If the property is a condominium, only the portion of the real estate owned by the Borrower is eligible.
[4] The Borrower must occupy one unit of the property.
[5] The Borrower must occupy one unit of the property.
[6] The Borrower must occupy one unit of the property.
~~[7] A newly constructed home is a completed property if it has been used as a year-round permanent residence for at least 90 days prior to the date of the Borrower application.~~

Current market value may be ~~documented with~~ 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 ~~Competitive Market Analysis (~~CMA~~)~~ ~~completed within 120 days of the Fix Up loan closing; or~~ if the following criteria applies:
  - o It must be ordered by a lender; and
  - o It must be completed by a disinterested third party within 120 days of the Fix Up loan closing;
- The lesser of the purchase price or related appraised value for the purchase of the home occurring within the past 12 months prior to Fix Up loan closing; or
- If the Borrower(s) has/have owned the property for more than 12 months, an existing appraisal dated within the most recent preceding 12 months prior to Fix Up loan closing.

Chapter 4 – Loan Eligibility

4.01 Eligible Loans

General Loan Eligibility Requirements

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

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

Eligible Loan Types/Loan Amounts/Loan Terms[8]

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.
- Seller will not make a loan term for an unreasonable length of time. Final maturity of the loan shall be commensurate with the Borrower's ability to pay including such considerations as debt-to-income ratio, size of household and Annualized Gross Income.

[8] See also Sections 4.02 and 4.12 of this procedural manual.

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

4.02 Ineligible Loans

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

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

4.03 Eligible Improvements

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

- Improve the basic livability or energy efficiency of the property[9], including:
  - Structural Additions
  - Alterations
  - Renovations and/or repairs, or
- Bring a property into compliance with state, county, municipal health, housing, building, fire and/or housing maintenance codes or other public standards applicable to housing, including:
  - Replacement of a well, and
  - Septic system upgrade or replacement.

~~Improvements shall not have commenced prior to the date of the loan closing with the exception of emergency repair financing as specified in Section 4.11.~~ If the Fix Up loan will be used to reimburse the borrower for improvements commenced and/or materials purchased, prior to loan closing, the seller must document the following through the use of receipts and/or paid billing statements:

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

4.04 Ineligible Improvements

Ineligible improvements include but are not limited to the following:

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

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

- Construction of or aesthetic improvements to recreational facilities including, but not limited to, ~~patios,~~ gazebos, tennis courts, hot tubs, swimming pools, saunas;
- Conversion of a nonresidential structure to a residential structure;
- Conversion of a recreational home to a year-round permanent residence;
- Costs associated with moving a house;
- Greenhouse;
- Improvements to a recreational home;
- Improvements begun ~~prior to the day of~~ more than 120 days prior to loan closing ~~except refinancing of short-term emergency financing as specified in Section 4.11 of this Procedural Manual~~;
- Improvements to the portion of buildings or real estate owned by the association in a PUD or Condominium project;
- Labor costs paid to the Borrower or any resident of the household;
- Materials or permanent fixtures which exceed the quality of those in the locality of the subject property;
- New construction or expansion of an area used in a trade or business;
- Playground equipment;
- Repairs to or construction of outbuildings including, but not limited to, sheds, utility buildings, shops, barns, silos; and
- Underground sprinkler systems.

4.05 Bids and Estimates for Improvements

Prior to making a loan, Seller shall obtain current (no more than 120 days prior to loan closing or bid expiration date) ~~itemized~~ bids and estimates ~~for all proposed improvements from the Borrower to establish improvement eligibility and~~ having sufficient detail to establish both the estimated cost and eligibility of the improvements.

4.07 Homeowner Labor

- All ~~improvement work completed by the Borrower(s) and/or Co-Borrower(s)~~ labor completed by the homeowner(s) must comply with all applicable building code regulations and ordinances;
- All necessary licenses and permits must be obtained;
- ~~Borrower(s) and/or Co-Borrower(s) may not pay labor costs to themselves or other household residents; and~~

- Homeowner(s) and any other household residents may not be reimbursed for labor using Fix Up Loan funds; and
- The Fix Up Homeowner Labor Agreement must be fully executed and included in the loan file. This form is located on the forms page of Minnesota Housing's website.

4.10 Credit Application

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

4.11 Refinancing

Minnesota Housing will not purchase loans for the purpose of refinancing or reimbursing the Borrower for expenses incurred on the subject property ~~prior~~ more than ~~to the day of~~ 120 days prior to loan closing ~~loan closing~~ except in the following circumstance~~s~~:

- ~~Refinancing of short-term financing for eligible emergency improvements where the original debt was incurred within the past 30 days; or~~
- Consolidation of the outstanding balance(s) of previously received Minnesota Housing loans when the Borrower is applying for funds to implement new eligible improvements, subject to the following conditions:
  - When consolidating the outstanding balance of previously received Fix Up or Community Fix Up loan(s), a prepayment penalty may apply (refer to the existing Fix Up Loan Note); and
  - Previously originated Fix Up loans with outstanding balances may not be consolidated into a new Fix Up Unsecured or Energy Conservation and Accessibility Loan.

Appendix C will be deleted in its entirety

Appendix C: Process Guide

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

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

All loans must be processed following industry standard practices and must meet the requirements of the Fix Up Program Procedural Manual as well as the underwriting guidelines of the Seller that originates the loan.

Loan Eligibility: Processing and Underwriting
Make preliminary eligibility determination as follows:

- Obtain a completed Fix Up Credit Application and supporting documentation from homeowner.
- Determine that property is owner-occupied.
- Obtain an Employment/Income documentation that indicates Borrower’s income does not exceed the limit posted on Minnesota Housing’s website.
- Obtain a credit report indicating the Borrower(s)’ credit score(s) meet the minimum score for the program (See Section 2.07).
- Bids and estimates are for eligible improvements, are current, and reconcile to loan amount.
  - If homeowner will need supplemental funds to complete the proposed work, request documentation for the Other Funding Sources listed on page 4 of the Fix Up Credit Application.
  - If homeowner will be performing any of the work themselves, provide Fix Up Homeowner Labor *Agreement* to the homeowner.
- Make final program determination.
- Use HDS SF Web Application to obtain a commitment of loan funds and interest rate as follows:
  - Select program using Program Choice;
  - Enter appropriate information, making adjustments as needed (from compliance error messages) to achieve loan stage of “Commitment” (See Sections 6.01 – 6.05).

Finalize eligibility determination and Borrower(s) underwriting qualification as follows:

- Obtain and review additional income documentation as needed to:
  - Confirm Borrower(s)' Income is within Eligibility maximums on Minnesota Housing's website;
  - Underwriting income used to qualify Borrower(s) yields a DTI acceptable to Minnesota Housing (See Section 4.06);
  - Income and employment are stable and likely to continue.
- Verify property eligibility and ownership interest.
- For secured loan, calculate the combined loan-to-value ratio (See Section 3.04).
- Finalize bids and estimates with homeowner:
  - Bids are current, the improvements are eligible and reconciled to the description on page 4 of the Fix Up Credit Application.
  - Compare the total bids and estimates to the final loan amount:
    - If homeowner will need supplemental funds to complete the proposed work, provide documentation for Other Funding Sources listed on page 4 of the *Fix Up Credit Application.*
    - If homeowner will be performing any of the work, obtain the executed *Fix Up Homeowner Labor Agreement. (See Section 4.07).*
- Update the loan in HDS SF Web Application:
  - All updated information except closing date can be entered.
  - Generate *Fix Up Loan Program Note* and finalize with any missing data fields.

Closing and Disbursement (See Section 6.06 and Chapter 7)

- Prepare and execute documents with homeowner:
  - Fix Up Note (See Section 7.03 for Signature Requirements)
  - If loan is secured with mortgage:
    - Execute Mortgage;
    - Provide Right of Rescission.
  - If applicable, Borrower must execute the Authorization Agreement for Monthly Automatic Payments (See link to form on MN Housing's website).
- Disburse loan proceeds:
  - For unsecured loan, disburse at loan closing;
  - For secured loan, disburse at end of rescission period.

- Provide borrower with notice of loan sale and servicing transfer advising borrower of servicer, address, monthly payment amount and due date Prepare Assignment of Mortgage.
- Submit Mortgage and Assignment of Mortgage to County for recording.

Selling the Loan to Minnesota Housing

- On HDS SF Web Application
    - Retrieve Commitment; compare all web information to final loan documents; make any needed Updates on web, including Closing Date; and Update.
    - Select Funding Approve, complete the certifications provided, and obtain loan stage of “Purchase Approve”.
    - Loan stage will advance to “Purchase” at end of business day.
    - Funds are paid to lender two business days following “Purchase” date.
- Deliver documents to servicer and to Minnesota Housing in accordance with Fix Up Loan Transmittal. (See Sections 7.02 and 8.02)

Note: Seller must satisfy all regulatory compliance requirements, including providing the Borrower(s) with the Good Faith Estimate of Settlement Costs and the Truth-In-Lending Disclosure.

Minnesota Housing Finance Agency

AGENDA ITEM: 6.C.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Selections, Community Fix Up Loan Program

CONTACT: Krissi Hoffmann, 651-297-3121 krissi.hoffmann@state.mn.us Cal Greening, 651-296-8843 cal.greening@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S)

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests Board approval for the Community Fix Up Loan Program recommendations described in the attached Initiative Detail. The Community Fix Up Loan Program accepts initiative proposals from participating Fix Up loan lenders and their community partners on an ongoing basis. The activities must address home improvement needs with a resulting community impact.

FISCAL IMPACT:
This program uses Pool 2 funds budgeted in the current 2014 Affordable Housing Plan. Action requested in this report is consistent with the program terms described in the plan.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Initiative Detail

BACKGROUND:
The following recommendations for Community Fix Up loan meet the guidelines for participation contained within the Program Concept.

Staff applies threshold indicators and considers compensating factors when determining whether to recommend a specific proposal to access funds under Community Fix Up Loan Program. The threshold indicators include:

- Confirmation that the initiative fits within the Program Concept;
- The strength of partnership;
- Leverage and/or value-added features;
- A focused marketing plan; and
- Budget counseling, if required.

INITIATIVE DETAIL:

RHAG Region	Application Partners	Estimated Demand	General Program Description
Metro	Greater Metropolitan Housing Corporation (GMHC) City of Lakes Community Land Trust West Hennepin Affordable Housing Land Trust	5 loans, totaling approximately $82,500	City of Lakes Community Land Trust ☐New ☒Renewal West Hennepin Affordable Housing Land Trust ☐New ☒Renewal Greater Metropolitan Housing Corporation ☒New ☐Renewal GMHC partners with two community land trust organizations that serve low- and moderate-income homeowners so that homeowners have access to affordable financing for home maintenance and upgrades. The land trust organizations market the program to eligible homeowners, approve the proposed improvements and provide counseling on financial implications. GMHC provides free rehab advisory services that include site visits, scope of work write-ups, assistance with contractor selection and inspection. Loan production has been modest, but GMHC believes demand will increase as the land trust housing ages and numbers of households in the land trusts increase.

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Minnesota Housing Finance Agency

AGENDA ITEM: 6.D.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: West Broadway Crescent, D7604

CONTACT: Anne Heitlinger, 651-296-9841
anne.heitlinger@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Request adoption of a Resolution authorizing the modification to increase the Housing Infrastructure Bond (HIB) forgivable loan commitment, in an amount up to $122,000.

FISCAL IMPACT:
The additional HIB funding will be funded from previously allocated state bonding authority. Funding for the above loan falls within the approved budget consistent with the AHP.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND:
The Minnesota Housing Finance Agency (Agency) Board, at its October 25, 2012 meeting, approved the development, West Broadway Crescent, for a commitment of $2,025,000 of Housing Infrastructure Bonds (HIB) through the Economic Development Housing Challenge (EDHC) program. Prior to closing in November 2013, the Mortgage Credit Committee approved a funding modification that increased the commitment by $300,000.

The development is currently in construction and the construction contingency has been nearly depleted due to extraordinary increases related to winter conditions and soil remediation. In order to allow construction to continue and for contingency to be available throughout the construction process, the first mortgage lender, Bank of America, required the sponsor CommonBond Communities to raise an additional $400,000. These funds were raised on an interim basis, and now a permanent funding plan is being created. The following summarizes the changes in the composition of the proposal since closing:

DESCRIPTION:	**AT CLOSING**	**AS MODIFIED**	**VARIANCE**
Total Development Cost	$12,138,817	$12,549,817	$411,000
Construction Cost Plus Contingency	$9,471,577	$9,882,577	$411,000
Agency Source:			
Housing Infrastructure Bonds - EDHC	$2,325,000	$2,447,000	$122,000
Loan to Cost Ratio	19%	20%	
Non-Agency Source:			
Investor Equity- Enterprise	$4,027,019	$4,129,887	$102,868
City of Minneapolis- purchase price refund	$0	$100,000	$100,000
Hennepin County- Petro and Well Funds	$0	$12,344	$12,344
CommonBond Communities	$259,375	$333,173	$73,798

Factors Contributing to Variances:

- The closing on West Broadway Crescent was delayed from late summer until November. Given the late start for construction and the harsh winter, the budget allowance of $55,000 for winter conditions evaporated quickly. The weather also impacted the ability to re-use on-site soil. The clay content is too high, so it cannot be compacted in its current state. Sand is being brought in to replace it.

- The geo-technical reports done prior to closing indicated that there was debris buried on the site. However, the amount of rubble and debris turned out to be significant and greatly exceeded the $56,000 budget.

- In January and February, a previously unknown well and an underground storage tank were found buried on the site.

- Construction is currently 7% complete, and contingency must be available through construction to address other unforeseen modifications and change orders to the scope of work.

- The development is still within 125% of the predictive model.

Other significant events since Board Selection:

None.

Board Agenda Item: 6.D.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING LOAN MODIFICATION
HOUSING INFRASTRUCTURE BOND- ECONOMOIC CHALLENGE (EHDC) PROGAM

WHEREAS, the Board has previously authorized the commitment for the development hereinafter named by its Resolution No. 12-066; and

WHEREAS, the development continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies; and,

WHEREAS, Agency staff have determined that there are increased development costs created by increased construction costs related to winter conditions, soil remediation, and the need for construction contingency.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment for the development noted below:

1. West Broadway Crescent - D7604
   - The amount of the Housing Infrastructure Bond loan shall be increased by up to $122,000, from $2,325,000 up to $2,447,000; and,

2. All other terms and conditions of MHFA Resolution No. 12-066 remain in effect.

Adopted this 24th day of April, 2014

____
CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 7.A.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Program Concept, Targeted Mortgage Opportunity Program

CONTACT: Kirsten Partenheimer, 651-297-3656
kirsten.partenheimer@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff hereby requests the approval of the Program Concept for the Targeted Mortgage Opportunity Program.

FISCAL IMPACT:
The Agency allocated $10,000,000 under the 2014 Affordable Housing Plan; $8,000,000 for the mortgage product from Pool 2 and $2,000,000 for a risk reserve from Pool 3.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Program Concept

BACKGROUND:
The goal of the Targeted Mortgage Opportunity Program (Targeted Mortgage) is to provide first mortgage financing to prospective homebuyers who are otherwise capable of maintaining successful homeownership, but are unable to access a mortgage due to tighter loan product guidelines and investor credit overlays. This pilot initiative targets low-income renters and emerging market households (i.e. households of color or Hispanic ethnicity) who have the ability and willingness to pay a mortgage. The Targeted Mortgage is expected to serve approximately 44 households.

Targeted Mortgage is linked with the Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity). Homeownership Capacity is designed to support successful homeownership, as well as household financial stability, through intensive homeowner and financial empowerment training. Homeownership Capacity counseling is a pre-requisite to receiving Targeted Mortgage financing.

Internal discussions began in early December, 2013 to identify key stakeholders serving targeted, emerging market and low-income renter households. Staff identified a list of 117 stakeholder organizations, which included the Minnesota state minority councils, current (Homeownership Education, Co8unseling and Training (HECAT) counseling agencies, non-profit mortgage loan originators, financial opportunity center counseling agencies, governmental organizations and other community stakeholders from the Twin Cities metropolitan area and Greater Minnesota. The process for stakeholder engagement and selection of Targeted Mortgage originators is summarized in Table 1.

Table 1: Targeted Mortgage Timeline

Stakeholder brainstorming session	February 7
Review of draft Program Concept with stakeholders	March 17 – April 18
Release of Request for Proposal (RFP)	Anticipated April 28 – May 16
Selection of Targeted Mortgage originators presented to Board	Anticipated July 24

With the purpose of gathering feedback for the design of the initiative, the Agency invited these stakeholder organizations to a brainstorming session held on February 7, 2014. Thirty attendees represented 23 organizations. Participants brought forward issues such as:

- Challenges mortgage-ready homebuyers experience;
- Factors of successful homeownership;
- Potential pilot mortgage product terms;
- Originator requirements; and
- Measures of a successful pilot program

Three organizations requested one-on-one meetings after the release of the Program Concept: SHOP Home Mortgage, Build Wealth Minnesota and Twin Cities Habitat for Humanity. The Council on Black Minnesotans, Council on Asian Pacific Minnesotans, Minnesota Chicano Latino Affairs Council, and the Minnesota Indian Affairs Council have been included on all stakeholder communications regarding Targeted Mortgage. Additionally, staff is holding in-person meetings in April with each council to elicit input regarding the Program Concept for Targeted Mortgage. Should these meetings result in any additional proposed changes to the Targeted Mortgage Program Concept, staff will inform the board of such changes at the board meeting.

Input from key stakeholders through the brainstorming session, one-on-one meetings with Agency staff and written input informed the development of the Program Concept. Key parameters of Targeted Mortgage financing include:

- 100% financing allowed;
- $1,000 minimum borrower contribution;
- Minimum reserves of either: three months PITI; or one month PITI and a maintenance escrow of at least $50 a month;
- Minimum 620 credit score, unless the borrower can document strong compensating factors;
- Income limits equal to that under the Start Up first-time homebuyer program;
- Completion of Homeownership Capacity or similar program training; and
- Anticipated loan pricing similar to Start Up rates

Through the Request for Proposal (RFP) process, Minnesota Housing will select the originating lenders responsible for qualifying clients, underwriting and processing loans. Originators will manually underwrite the loans to FHA or conventional guidelines using an overlay that loosens product guidelines as outlined in the Targeted Mortgage Term Sheet. Minnesota Housing staff will review key data and the underwriting decision prior to closing.

Upon Board approval of the Targeted Mortgage Program Concept, staff plans to release the RFP in late

Targeted Mortgage Opportunity Program
PROGRAM CONCEPT

Targeted Mortgage Background and Goals

The goal of the Targeted Mortgage Opportunity Program (Targeted Mortgage) is to provide first mortgage financing to prospective homebuyers who are otherwise capable of maintaining successful homeownership, but are unable to access a mortgage that meets their needs. Tighter loan product and investor credit overlays, and the implementation of new regulations, have forced certain households out of the market or into sub-prime mortgages.

This pilot initiative targets low-income renters and emerging market households (i.e., households of color or Hispanic ethnicity) who have the financial resources to pay a mortgage.

Targeted Mortgage will be linked with the Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity), which is designed to support successful homeownership, as well as household financial stability, through intensive homeowner and financial empowerment training.

Funds Available

The Agency allocated $10,000,000 under the 2014 Affordable Housing Plan; $8,000,000 for the mortgage product and $2,000,000 for risk reserves.

Borrower Eligibility

Borrower loan files will be manually underwritten to either FHA or conventional underlying product guidelines, with the use of custom underwriting criteria to expand eligibility. The custom underwriting criteria assumes borrowers have completed the required intensive homeowner financial empowerment training and can demonstrate strong compensating factors, such as:

- Low credit score, but can demonstrate progress in repairing credit
- Limit housing payment impact (i.e., limited payment shock) with demonstrated two-year minimum rental history
- Sufficient reserves
- Required minimum borrower contribution

Credit Score

While a 640 minimum credit score is typically required to qualify for an underlying mortgage product, Targeted Mortgage allows a borrower to qualify with a 620 credit score, or lower with strong compensating factors. Because Targeted Mortgage borrowers will have received extensive financial and credit repair counseling, a borrower may still have a low credit score, but otherwise be able to demonstrate financial capacity and an upward trend in credit score.

Loan-to-Value Ratio

The Targeted Mortgage product allows 100% loan-to-value (LTV) ratios so borrowers can apply savings to closing costs, home repairs or reserves.

Reserves

Because the Targeted Mortgage product allows 100% financing, it requires reserves either with three months' principal, interest, taxes, and insurance (PITI), or one month PITI and the establishment of a maintenance escrow account. By reserving liquid assets for post-closing, in addition to homeowner financial empowerment training, borrowers can better prepare themselves for the uncertainties of homeownership. Borrowers must still commit $1,000 of their own funds to the transaction and can apply these funds to the closing costs.

Please see Appendix A for the Targeted Mortgage Term Sheet and complete borrower eligibility requirements.

Originator Eligibility

Providers will demonstrate through the Request for Proposal (RFP) how their organization meets the following requirements:

- Good standing with the Minnesota Department of Commerce
- Licensed to originate mortgage loans (organization and individual loan officers), unless exempt
- Demonstrated ability to originate home mortgage loans in accordance with state and federal requirements
- Ability to underwrite to FHA or conventional underwriting guidelines
- Demonstration of cultural competency and experience working with low-income and emerging market borrowers
- Established relationship with a credit reporting bureau
- Ability to provide services in person and by phone
- Adequate staffing to meet Targeted Mortgage program demand
- Tracking Targeted Mortgage required data through a system currently used by provider or developed by provider (i.e. spreadsheets) to meet program reporting requirements

Loan Origination Process

Participating lenders commit loans for eligible Targeted Mortgage borrowers through Minnesota Housing's online commitment system. Prior to closing, the lender must submit to Minnesota Housing for review:

- Copy of the 1008 with a detailed underwriting decision documenting compensating factors; and,
- Minnesota Housing Data Sheet.

Minnesota Housing plans to table-fund Targeted Mortgage loans.

Program Evaluation

The Targeted Mortgage program is a pilot program. Minnesota Housing will evaluate the program quantitatively and qualitatively and will require providers to collect data to evaluate the success of Targeted Mortgage.

Servicer

Targeted Mortgage loans will be serviced through a servicer selected by Minnesota Housing.

Compensation Structure

The compensation for each loan originated is as follows:

- 1% origination
- Service Release Premium (SRP) paid by Minnesota Housing – TBD
- Standard fee set, as proposed by the originator during the RFP process

Program Contacts

For questions or to schedule a meeting to provide input on this program concept, please contact Kirsten Partenheimer, Targeted Mortgage Program Manager, at kirsten.partenheimer@state.mn.us.

APPENDIX A

Targeted Mortgage Term Sheet

Minnesota Housing's Targeted Mortgage program follows FHA or conventional underwriting guidelines along with the custom underwriting criteria listed on this term sheet. In the pilot phase of the program, originating lenders can request waiver of individual terms upon submitting compensating factors to Minnesota Housing.

PARAMETERS	PRODUCT REQUIREMENTS
Underwriting	FHA or conventional underwriting guidelines. Manual underwriting required.
Geographic Area	Statewide
Eligible Use	Purchase or refinance
Interest Rate	TBD- Similar rate to Minnesota Housing's first-time homebuyer program rate
Eligible Occupancy	Owner-occupied
Minimum Credit Score	620; otherwise must document strong compensating factors
Housing Ratio/Maximum Debt-to-Income (DTI) Ratio	30% (front-end)/38% (back-end), or higher if additional income is verified
Minimum Reserves	3 months PITI, or 1 month PITI plus maintenance escrow of a minimum of $50 per month (subject to capacity of servicing entity).
Education and Counseling	• Homeownership Capacity or Homeownership Capacity-like household financial empowerment program (See Appendix B); and, • Home Stretch or Framework
Income Limit	MRB income limits based on industry-standard qualifying income calculation
Acquisition Cost Limit	Refer to the underlying product guidelines
Maximum LTV/CLTV	100%/105%
Minimum Borrower Contribution	$1,000
Amortization	30 years
First-Time Homebuyer	Not necessary

PARAMETERS	PRODUCT REQUIREMENTS
Property Standards	Refer to the underlying product guidelines
Subordinate Financing	Community Seconds allowed
Gifts	Allowed, above and beyond borrower contribution
Maximum Seller Contributions	Refer to underlying product guidelines
Eligible Property Types	1-unit dwellings, including townhouses, condos, and units in a land trust or PUD
Ineligible Property Types	• Duplexes • Manufactured housing • Coops
Mortgage Insurance	Not required

APPENDIX B

Financial Empowerment Components

The Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity) RFP process will address the components of an equivalent household financial empowerment program. The program could contain the following, but is not limited to:

- Asset building (i.e. savings, retirement plans, home ownership, higher education, etc.)
- Credit report education, repair, and re-building
- Development of spending plans, including financial best practices
- Consumer protection training and education (i.e. banks, credit unions, insurance companies, predatory financial scams, and identity theft)
- Filing taxes
- Post-purchase counseling

Other financial empowerment services could include the following, as applicable:

- Debt reduction
- Assistance with setting up and managing a bank account
- Workforce development
- Technology training
- Entrepreneurship opportunities
- Career development
- Educational opportunities

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AGENDA ITEM: 7.B.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Program Concept, Enhanced Financial Capacity Homeownership Initiative

CONTACT: Ruth Hutchins, 651-297-3128 ruth.hutchins@state.mn.us
Tal Anderson, 651-296-2198 tal.anderson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
The Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity) is designed to expand the efforts of existing organizations that currently provide intensive financial empowerment and homeownership training. The goal of this initiative is to increase the probability of successful homeownership among emerging market and low-income individuals.

Staff is hereby requesting board approval of Homeownership Capacity Program Concept.

FISCAL IMPACT:
The Homeownership Capacity Program is supported by the 2014 Affordable Housing Plan budget in the use of Pool 3 funds for this initiative.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Program Concept

BACKGROUND:
Minnesota ranks third in the nation for the highest homeownership rate, yet Minnesota still has the largest gap in homeownership between households of color and white/non-Hispanic households. While Minnesota has one of the best statewide homeowner pre-purchase training infrastructures in the country through the Homeownership Advisors Network, it is clear that additional tools need to be enlisted to assist in closing the gap. Through a funding allocation in the 2014 Affordable Housing Plan, $500,000 will be made available to organizations that currently work with emerging market and low-income renter client base and have an ability to provide intensive financial empowerment and homeownership training.

The development of the program concept was a result of input from key stakeholders through brainstorming sessions as well as through one-on-one meetings and written input. Internal discussions began in early December to identify key stakeholders serving targeted, emerging market audiences. A list of 117 organizations was identified. These stakeholder organizations were invited to participate in a brainstorming session held on February 7 to discuss Homeownership Capacity program delivery, eligible clients, marketing and outreach, and outcomes. The brainstorming session saw participation of 29 attendees from 21 organizations around the state including nonprofit and governmental entities.

Following the brainstorming session, a draft program concept was developed and released with a request for input from the stakeholder organizations previously referenced. Input was provided in written form and through one-on-one meetings with Agency staff. Fourteen one-on-one meetings were held during March with written input provided by an additional three organizations. This input was discussed and incorporated into the program concept provided.

The key aspects of the Homeownership Capacity Program include:

- Client eligibility is defined as households having the primary goal of homeownership, with a need to address barriers to homeownership within three years of intensive financial empowerment and homeownership training.
- Nonprofit housing organizations, housing and redevelopment agencies or other political subdivisions that can demonstrate cultural competency and a commitment to serving low-income renters and emerging markets are eligible to apply for Homeownership Capacity funds.
- The use of funds must be used to support eligible clients through intensive financial empowerment training as well as pre-and post-purchase services which can be conducted in both group and one-on-one settings. Once the client is ready to purchase, a referral must be made to the Home Stretch or Framework curriculum for the client to complete the required homebuyer training.
- Organizations that receive Homeownership Capacity funds must report on client progress towards goals while in the Homeownership Capacity Program and on outcomes after post-goal achievement.

The Council on Black Minnesotans, Council on Asian Pacific Minnesotans, Minnesota Chicano Latino Affairs Council, and the Minnesota Indian Affairs Council have been included on all stakeholder communications regarding this initiative. Additionally, in-person meetings will be conducted in early April with each Council to elicit input regarding the Homeownership Capacity program concept. Should these meetings result in any additional proposed changes to the Program Concept, staff will inform the board of such changes at the board meeting.

Upon board approval of the Homeownership Capacity program concept, a Request for Proposal (RFP) will be released in late April. Reviewers of the RFP and Selection Committee members will be comprised of Agency staff. The funding recommendations will be brought before the board in July.

Minnesota Housing Finance Agency

Enhanced Financial Capacity Homeownership Initiative

PROGRAM CONCEPT

Homeownership Capacity Background and Goals

Homeownership Capacity Background

The Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity) is a pilot initiative targeted to low-income renters and emerging market households (i.e., households of color or Hispanic ethnicity) to increase their probability of successful homeownership in Minnesota.

Emerging market households are an increasing share of the state's population. The foreclosure crisis disproportionately impacted them, their homeownership rate declined significantly since 2008 and they struggle to access the mortgage market. As of 2011, Minnesota's homeownership disparity (the homeownership rate differential between white/non-Hispanic and underserved households) is the highest in the nation.

Homeownership Capacity Goals

The services available under Homeownership Capacity will be provided through collaborative efforts with organizations that work closely with and/or provide outreach to low-income renters and emerging market populations. Homeownership Capacity supplements the traditional homeowner training provided by the Homeownership Advisors Network, coordinated by the Minnesota Homeownership Center. As part of this effort, Minnesota Housing will work with designated organizations to increase the probability of successful homeownership and household stability through intensive financial empowerment and homeowner training.

Funds Available

The Agency allocated $500,000 under the 2014 Affordable Housing Plan.

Program Delivery

Eligible Clients

Upon initial client intake as described by providers, Homeownership Capacity clients include the following:

- Households that have expressed an interest in obtaining homeownership or improving their homeownership situation as a primary household goal, have demonstrable barriers to achieving homeownership and a likely path to addressing such barriers (generally it is anticipated that households served will address barriers within three years of working with Homeownership Capacity provider)

- Households that have adequate income needed to support homeownership or will achieve adequate income through the support of Homeownership Capacity services
- Households willing to make a commitment to working with a Homeownership Capacity provider in a timeframe agreed upon by the client and provider to increase household financial empowerment and the probability of successful homeownership through both pre- and post-purchase services
    - Financial empowerment topics include, but are not limited to:
        - Asset building (i.e. savings, retirement plans, home ownership, higher education, etc.)
        - Credit report education, repair, and re-building
        - Development of spending plans, including discussion of financial best practices
        - Consumer protection training and education (i.e. banks, credit unions, insurance companies, predatory financial scams, and identity theft)
        - Filing taxes
    - Other financial empowerment services could include the following, as applicable:
        - Debt reduction
        - Assistance with setting up and managing a bank account
        - Workforce development
        - Technology training
        - Entrepreneurship opportunities
        - Career development
        - Educational opportunities
        - Community responsibility of homeowners
- Households which agree to take Home Stretch or Framework comprehensive homeowner training

Eligible Use of Funds

The Homeownership Capacity funds may be used if a minimum of the following can be demonstrated as part of the client file:

- Clients that are determined to be eligible to be served under this program (see Eligible Clients above);
- Pre- and post-purchase counseling which can be conducted one-on-one (by phone or in person) or in a group setting;
- Use of financial empowerment principles and curriculum approved by Minnesota Housing which includes, but is not limited to, topics specified above;
- Referral to a Home Stretch provider or Framework once client is ready for home purchase;
- Completion of client check-ins as specified under program requirements.

Note: Organizations that provide “other financial empowerment sources” described herein may not rely on Homeownership Capacity as their sole source of funding. Funds also cannot be used for direct borrower compensation or financial incentives.

Program Application

The Request for Proposal (RFP) will require applicants to propose working with a specified and reasonable number of clients. The RFP will also establish the amount of funds that can be requested by any single provider.

Applicants should be prepared to address the following in their RFP, which may include but is not limited to:

- The target service area and target demographic the applicant will serve as well as the approach to securing client participation;
- The number of clients that will be served and the capacity of the applicant to meet the demand;
- The role of the counselor and client;
- The anticipated average length of time the applicant will work with clients;
- The measurable outcomes the applicant will achieve;
- How Home Stretch or Framework will be integrated into the program design;
- Training of those providing Homeownership Capacity services;
- Program forecasting to include method and likely number of potential clients to which outreach will be provided, the number expected to fall within program parameters, and the number to proceed into homeownership.

Grant Agreements

Funds for the eligible activities listed in this Program Concept will be made available for a period of twelve (12) months from August 1, 2014 – July 31, 2015. Homeownership Capacity provider agreements will be mailed to the contact person upon approval of the Minnesota Housing Board.

Program Evaluation

Homeownership Capacity is a pilot program with the goal for clients to achieve sustainable housing which may include homeownership. Evaluation of the program will be both quantitative and qualitative. A standard set of data collection items used to demonstrate client progress towards goal and post-goal achievement outcomes will be defined and required for reporting under Homeownership Capacity**.**

Reporting

A reporting packet will be provided for each Homeownership Capacity provider. The reporting packet will include necessary reporting forms and instructions for submitting reports. Reports shall cover all services provided under the grant during the grant period. All reporting should be submitted to Minnesota Housing as described in the reporting packet.

Eligibility Requirements for Providers

Providers will demonstrate through the RFP how their organization meets the following requirements:

- Is a nonprofit housing organization, housing and redevelopment authority or other political subdivision;
- Is in good standing with the State of Minnesota;
- Is able to demonstrate cultural competency and commitment to serving low-income renters and emerging market populations including providing translation services, as needed;
- Is able to provide services in person and by phone;
- Has or will have the capacity to serve the number of clients anticipated under Homeownership Capacity;
- Has recent experience in providing comparable services;
- Has trained and qualified staff to deliver Homeownership Capacity programming including competency in post-purchase service delivery;
- Is able to adhere to Minnesota Housing’s conflict of interest requirements;
- Is able to provide financial empowerment services in the following areas:

  - Asset building (i.e. savings, retirement plans, home ownership, higher education, etc.)
  - Credit report education, repair, and re-building
  - Development of spending plans, including discussion of financial best practices
  - Consumer protection training and education (i.e. banks, credit unions, insurance companies, predatory financial scams, and identity theft)
  - Filing taxes

  Other financial empowerment services could include the following, as applicable:

  - Debt reduction
  - Assistance with setting up and managing a bank account
  - Workforce development
  - Technology training
  - Entrepreneurship opportunities
  - Career development
  - Educational opportunities
  - Community responsibility of homeowners;
- Is able to provide post-purchase counseling services;
- Has experience with program tracking, reporting and evaluation;
- Is willing to participate in training that may be required by Minnesota Housing;
- Is open to a collaborative approach with other service providers.

Contract will include the following provisions:

- Will not engage in exclusivity agreements with clients or interested parties such as servicers or lenders;
- Will not engage in practices which exclude other providers from working with its clients, servicers or lenders should the client willingly seek assistance from another organization.

Compensation Structure

Determined based on number of selected applications and proposed budgets through the RFP.

Program Contact

For questions or to schedule a meeting to provide input on this program concept, please contact Ruth Hutchins at (651) 297-3128.

The RFP is subject to all applicable federal, state, and municipal laws, rules and regulations. Minnesota Housing reserves the right to modify or withdraw the RFP at any time and is not able to reimburse any applicant for costs incurred in the preparation and submission of proposals. It is the policy of Minnesota Housing to further fair housing opportunities in all Minnesota Housing programs and to administer its housing program affirmatively, so that all Minnesotans of similar income levels have equal access to programs regardless of race, color, creed, religion, national origin, sex, sexual orientation, marital status, status with regard to receipt of public assistance, disability, or family status.

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Minnesota Housing Finance Agency

AGENDA ITEM: 7.C.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Revised Community Homeownership Impact Fund Procedural Manual

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REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff is hereby requesting board approval of a revised Community Homeownership Impact Fund (Impact Fund) Program Procedural Manual. The procedures in this new Procedural Manual will guide the use and management of funds awarded to Impact Fund projects and program administrators.

FISCAL IMPACT:
The Impact Fund is primarily funded with State appropriations (Economic Development and Housing Challenge Program funds), with the main exceptions being interim loans awarded to administrators and funded from the Housing Affordability Fund (Pool 3), and housing infrastructure bond proceeds awarded to community land trust administrators.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Summary of Key Changes to the Procedural Manual
- Procedural Manual

BACKGROUND:
Since 1999, Minnesota Housing has offered the Community Homeownership Impact Fund (Impact Fund) Program (formally known as the Community Revitalization Fund – CRV) through the Single Family Request for Proposals (RFP). Primarily funded with Economic Development and Housing Challenge Program (Challenge) funds, this statewide program awards funds to administrators to address locally-identified needs for affordable, single family, owner-occupied housing activity. The most common uses of the Impact Fund are:

- Grants are awarded to administrators on a limited basis to bridge value gaps that exist between the total development cost and a unit's appraised value, and for other eligible activities where recapture of loan funds proves infeasible or unaffordable;
- Interest-free, 30-year deferred loans are awarded to administrators, and administrators make them available to eligible homeowners to bridge an affordability gap not covered by the first mortgage or other funding sources; and
- Interim loans are awarded to administrators for a variety of purposes, including the acquisition, rehabilitation, demolition and/or construction of owner-occupied housing; interim loans are generally provided at a rate of two percent.

Minnesota Housing's Single Family leadership and Impact Fund staff have contemplated the need for a substantial update to the Impact Fund's Procedural Manual. In conjunction with the re-write of the Manual, since last fall staff has also made revisions to the template Fund Availability, Disbursement and Loan/Grant Agreement (the "Agreement" signed by each Impact Fund administrator that is awarded funds). Within the new Impact Fund Procedural Manual, staff has proposed: 1) updates to existing procedures and policies, addressing previous omissions in guidance; 2) greater alignment between the Manual and the administrator Agreement; and 3) several new procedures and policies to guide the use and management of Impact Fund dollars. Major proposed changes to the Manual are summarized below.

Changes to Existing Policies/Procedures

- Increase the minimum allowable administration fee for programs administering deferred loans or grants to households from $350/unit up to $500/unit. Applicants may make the case in their Application for Funds (under the Single Family RFP) for a higher per-unit fee if they adequately document higher transaction costs per unit.
- Revise the disbursement policy for grants and deferred loan awards of over $50,000 to permit the first disbursement of up to one third of the award (currently, up to one-half of the award is permitted as the first disbursement).

New Policies/Procedures

- Use the annualized gross household income of co-mortgagors and any occupying co-signers as the basis of household income determination, consistent with recent changes made to Agency Single Family first mortgage programs. For the Impact Fund, the Procedural Manual would exempt any occupying co-signer's income from the household income for owner-occupied rehabilitation activity
- Implement an Affordability Gap Eligibility Policy, requiring an assessment of the household's need for the assistance, and a housing ratio (percent of gross income going toward housing costs) of no less than 25% but not to exceed 30%. Exception:

- For specific programs that serve low-income households (up to 80% of Area Median Income) and have a goal of sustainable homeownership, a housing ratio of no less than 20% would be permitted

- Implement a Cost Estimates for Improvements Policy, and a Homeowner/Volunteer Labor Policy
- Provide a Maximum Impact Fund Investment Per-unit Policy that would require written approval from Minnesota Housing to increase the Impact Fund per-unit investment by more than 50% of the maximum per-unit investment as stated in the Agreement

Administrative Revisions

- Add to the Manual existing guidance on the website and within the Agreement about Deferred Loan Bond Proceeds
- Formally define and recognize the Indian Set-aside of the Economic Development and Housing Challenge (EDHC) program (in effect since the 2010-2011 biennium), and specify that EDHC rules are applicable to these funds
- Cite the authority for interim loans, better distinguish between a 2% interim loan and 0% interim loan, and provide more guidance on the latter
- Add the Layering restriction to the Manual (currently found only in the Agreement)
- Provide additional guidance about projects with acquisition and either Substantial or Moderate Rehabilitation as it relates to Green Communities requirements (Substantial Rehabilitation requires the replacement and/or improvement of all major building systems)
- Update the Procedural Manual lists of representations and warranties, definitions, forms, and required program documents
- Update the reporting requirements, including an annual report for all open awards, and mid-year report for awards made the previous year

Please note that the Procedural Manual proposed for approval is substantially different from the former Procedural Manual. As a result, it is impractical to provide a redlined version of changes to the manual.

Procedural Manual Implementation Schedule and Applicability

Following board approval, the proposed new Impact Fund Procedural Manual will go into effect immediately.

Because existing Agreements of open awards with Impact Fund administrators refer to the Procedural Manual as amended, any updated version of a requirement in the Manual will apply to these existing Agreements.

In the event that a requirement that was solely in an existing Agreement conflicts with the amended Manual, the existing Agreement controls.

Summary of Key Changes to the Community Homeownership Impact Fund Procedural Manual

4.3.14

	Current procedure or requirement	Proposed procedure or requirement	Rationale for Change
1	**Household income determination** based on Projected Gross Household Income of all household residents over 18	Household income determination based on Annualized Gross Income • Determined by incomes of co-mortgagors and any occupying co-signers • Exempts any occupying co-signer's income from Annualized Gross Income for owner-occupied rehabilitation activity • Additional forms added	• Change mostly aligned with similar changes to Agency first mortgage program (Start Up)'s income determination methods as approved at the December 2013 board meeting • Consistency between Single Family homeownership programs will cause less confusion and Administrator underwriting errors
2	**Disbursement policies** for grants and deferred loans: • For awards ≤ $50,000, first disbursement allows up to 100% of the award • For awards ≥ $50,000, two disbursements of **1/2** of the award; second disbursement based on the receipt of Household Demographic Forms that demonstrate that 50% of funds and/or units have been expended	For grant and deferred loans: • Administrator certification that the awarded activity has begun • For awards ≤ $50,000, first disbursement allows up to 100% of the award (no change) • For awards ≥ $50,000, first disbursement of up to 1/3 of the award; subsequent disbursements based on justification of need (including proportion of funds and/or units reported on via Household Demographic Forms)	• To ensure that disbursed funds will be used for the awarded activity • To provide for a more cautious disbursement approach with the goal of preventing a large initial investment of funds into activities where the the market, project feasibility, and/or Administrator capacity has weakened
3	**Administration fee** • Up to $350/unit fee allowed for costs of administering deferred loans (or grants) programs to households	**Administration fee** For costs of administering deferred loans (or grants) to households: • Up to $500/unit base fee for program administration costs, **OR** for programs involving larger deferred loans or larger transaction costs per unit, a higher fee per-unit • If requesting more than $500 per unit, the Administrator must itemize the programmatic costs in its Application for Funds, justifying the need for the higher fee. Minnesota Housing must approve a higher fee	• The currently-permitted $350 per-unit fee covers a small percentage of Administrator expenses (staff time and costs) of administering these programs. • Selected owner-occupied rehab program admin. costs: ○ Hutchinson - $3,000/unit ○ SWMHP - $2,300 -$3,300/unit, incl. advertising and indirect costs ○ AEOA - $764/unit • The Impact Fund administration fee has lagged behind Fix Up/Community Fix Up loan fees, which consist of a processing fee of $400, and an origination fee of 1% (not to exceed $50). Given that Impact Fund-supported owner-occupied rehabilitation programs are often more "hands-on" than the Fix Up loan program, at a minimum it makes sense to align them • $500/unit is a reasonable base fee given the fixed costs of program administration
4	**Layering restriction** • Impact Fund dollars from one award may not be used for a project that has previously been allocated Impact Fund dollars from a different Impact Fund award unless specifically approved in writing by Minnesota Housing	**Layering restriction** • Language was in the Agreement only; now in the Manual Clarifications made: • Explicitly applies requirement only to semi-permanent (deferred loan funds) and permanent funds (grant funds) • Formally exempts interim loans (generally for a term of 20 months) from the restriction	• Restriction is in the Funding Agreement (Agreement), but not the Manual • Because interim loan funds are repaid to the Agency, interim loan funds layered with grants or deferred loan funds in an individual unit are not permanent funds within the unit • Exempting interim loan funds from the restriction is consistent with the intent of these funds, i.e. to provide for a temporary and flexible source of capital to finance a project in the short term

Summary of Key Changes to the Community Homeownership Impact Fund Procedural Manual

4.3.14

	Current procedure or requirement	Proposed procedure or requirement	Rationale for Change
5	**Maximum Impact Fund investment per-unit** • No overall policy • Maximum per-unit investment is sometimes defined in the Impact Fund award's funding Agreement	**New Maximum Impact Fund Agency investment per-unit** policy Prior written approval is required to increase the Impact Fund per-unit investment by more than: • 50% of the maximum per-unit investment as stated in the Agreement, or, • The average per-unit investment indicated under the Agreement that has no stated maximum	• To encourage Administrators to adhere to the average per-unit investment amount in their Agreement • To provide for basic cost effectiveness in projects by limiting the per-unit investment • To encourage the use of non-Agency fundings sources in projects
6	**Affordability Gap eligibility** & **Housing ratios requirements** (percentage of household income represented by housing costs) • No overall policy, but RFP messaging states that the specific affordability gap for each household should be based on household's need for the assistance	**New housing ratio requirements** (percentage of household income represented by housing costs) • Must include an assessment of the household's need for Affordability Gap assistance • Percentage of income represented by housing costs **no less than 25% but not to exceed 30%.** Minnesota Housing may approve waivers to this on a case-by-case basis	• Affordability gap assistance should be driven by a specific need for the assistance, based on Administrator underwriting • By aligning with industry-standard housing ratios, it will ensure that the level of Impact Fund dollars used by households is right-sized and based on actual need
7	**Affordability Gap eligibility for Low-Income Households (≤ 80% of AMI)** • No overall policy, but RFP messaging states that the specific affordability gap for each household should be based on household's need for the assistance	**New Affordability Gap eligibility requirement for Administrators serving Households** •Administrators serving Low Income Households (≤ 80% of AMI) must include an assessment of the Households' needs for affordability gap assistance • For households ≤ 80% of AMI, percentage of income represented by housing costs **no less than 20%**	• Administrators that serve Low Income Households via the provision of alternative homeownership models - e.g., community land trusts, contracts-for-deed, and special homebuyer financing (right of first refusal by Administrator upon resale) - seek to support sustainable homeownership by keeping homebuyer housing costs lower than in typical transactions given household debt and other household financial challenges
8	**Cost Estimates for Improvements policy** • No overall policy, but RFP messaging states this as a goal	**New policy on Reasonable Cost Estimates for Improvements** • The Administrator must determine that all costs in the scope of work are reasonable and cost effective. • Various ways to do this include (but are not limited to) competitive bids or cost estimates from contractors; doing a cost study or competitive market analysis of the property as improved; etc.	• For Administrators with all-in-house approaches (e.g. in-house construction company, contractors) or those with special models not otherwise provided in the community (e.g., demonstrating high cost effectiveness due to volunteer or donated labor; niche programs), requiring a minimum number of bids could be problematic. • Given the diversity of Administrator models, a variety of actions by the Administrator could be used to demonstrate cost effectiveness, such as doing competitive bids, performing a cost study, etc.

Summary of Key Changes to the Community Homeownership Impact Fund Procedural Manual

4.3.14

	Current procedure or requirement	Proposed procedure or requirement	Rationale for Change
9	**Homeowner Labor Policy** • No overall policy. Only permitted on a case-by-case basis, at the sole discretion of Minnesota Housing staff • Work completed in a Project must be in compliance with all state, county, municipal codes and ordinances (building, fire prevention, health, housing, housing maintenance)	**New Homeowner Labor Policy** • Deferred loan proceeds <u>may not</u> be used to pay for purchased materials for home repair or rehabilitation projects where the work is completed by the homeowner or volunteers, <u>unless</u> approved by Minnesota Housing as a part of Administrator's Application for Funds • Homeowner labor cannot be paid for, or reimbursed with, Impact Fund dollars • <u>All work completed by homeowners</u> must be in compliance with all state, county, municipal codes and ordinances (building, fire prevention, health, housing, housing maintenance)	• Given occasional requests by Administrators to use deferred loan funds to pay for rehab materials used in projects where work is completed by homeowners/volunteers (e.g., painting, staining, etc.), this clarifies the conditions under which homeowner labor will be permitted on projects
10	**Indian / Tribal housing** • Authority as stated is incorrect and out-of-date • Indian Set-aside is not referenced in Manual	**Updated guidance on Indian/ tribal housing** • Clarified that only Economic Development and Housing Challenge (Challenge) Statute and Rules apply to Indian/tribal housing activities (i.e. Tribal Indian Housing Program, Urban Indian Housing Loan Program, and American Indian Housing Program do not apply) • MN Session Laws establish the Indian Housing Set-aside of Challenge funds • Specific chapter removed, requirements for tribal housing Administrators incorporated into the rest of Manual	• Removal of outdated references • A need to formally define and recognize the Indian Set-aside of Challenge (in effect since the 2010-2011 biennium)
11	**Interim Loans used for interim construction financing** • Authority is not stated • Guidance for 0% Innovative Housing interim loans is limited	**Interim Loan authority and guidance is clarified** • Cited the Statutes and Rules of the 0% Challenge-funded Innovative Housing interim loans as Economic Development and Housing Challenge (MN Statutes §462.33 MN Rules 4900.3600-3652); Innovative Housing statute and rule no longer to be cited/used • Cited the Statute for 2% PAH-funded interim loans as MN Statutes §462A.05 Subd. 2 (Residential Construction Loans) • Better distinction made between the 2% interim loan and 0% interim loan (additional guidance in the latter about Innovative housing projects)	• Minimal previous guidance about 0% interim loans • Previous Manual language did not clearly state the applicable MN Statutes and Rules for each type of interim loan
12	**Guidance on Deferred Loans funded by Housing Infrastructure Bond Proceeds** • Current guidance in Impact Fund Agreement and guidance posted on Impact Fund website	**New Manual section** that includes guidance on **Deferred Loans funded by Housing Infrastructure Bond Proceeds** • Eligible properties and required documentation for projects funded with Deferred Loans - bond proceeds. • Conditions under which bond proceeds are repayable	• Guidance was in two places • A Manual section will clarify requirements for current awards as well as for potential new Housing Infrastructure Bond Proceeds awards (2014 and beyond) • Agreement also revised

Summary of Key Changes to the Community Homeownership Impact Fund Procedural Manual

4.3.14

	Current procedure or requirement	Proposed procedure or requirement	Rationale for Change
13	**Green Communities requirements for Impact Fund projects with Acquisition and either Substantial or Moderate Rehabilitation** • Current guidance is incomplete	**More guidance is provided** about what distinguishes projects with acquisition and either Substantial or Moderate Rehabilitation, including the following: • A Substantial Rehab (or Gut Rehab) project includes the replacement and/or improvement of all the major systems of the building, including its envelope • A Moderate Rehab project does not include all major systems and building envelope work as described for Substantial Rehab	• Substantial Rehab projects involve larger reinvestments in the property, impacting all major systems of the home. Many acquisition/rehab/resale projects funded via the Impact Fund qualify as Moderate Rehab • A new Green Communities Criteria Checklist has been developed for the 2014 RFP that further clarifies the specific criteria requirements that apply to each project, based on project type (e.g. Substantial Rehab, Moderate Rehab, or New Construction)
14	**Definitions** in the Procedural Manual and Funding Agreement • Not always consistent with one another	**Updated or new definitions** for terms such as • Indian Housing Set-aside • Low Income Household • Interim Loan • Affordability Gap Financing • Value Gap Financing	• Align definitions in the Manual with the Agreement (many definitions taken out of the Agreement to eliminate potential for inconsistency) • Reduce the amount or redundancy between the Manual and the Agreement
15	**Representations and Warranties** • List of federal and state laws and regulations in the Manual is incomplete • List in the Manual is redundant with list of Representations and Covenants in the Funding Agreement	**Updated the Representations and Warranties** list, including: • Added a reference to the MN SAFE Act of 2010 and the Truth in Lending Act/Regulation Z • Moved items from the Funding Agreement to the Manual	• Align the Manual and the Agreement, and reduce the amount or redundancy between them
16	**Required Program Documentation List** • Appendix to Manual that specifies which documents are required for Administrator files, based on type of activity type	**Updated Required Program Documentation List** • Updated to provide clarification and consistency with other Manual revisions	• Updated to provide clarification and consistency with other Manual revisions (forms, processes, etc.)

Minnesota Housing Finance Agency

Community Homeownership Impact Fund Program Procedural Manual

April 25, 2014

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Introduction

Mission Statement
Minnesota Housing finances and advances affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities.

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

Minnesota Housing offers funding through an annual Single Family Request for Proposal (RFP) to assist communities/neighborhoods in addressing local housing concerns by leveraging resources to maintain and/or develop ownership housing affordable to the local workforce.

Community Homeownership Impact Fund Program
The Community Homeownership Impact Fund Program (Impact Fund), formerly known as the Community Revitalization Program (CRV), is the umbrella name for a variety of limited funding resources offered in the Single Family RFP, including the Economic Development and Housing Challenge Fund (Challenge) and other Minnesota Housing resources which vary each year.

The Impact Fund allows for a variety of housing activities including: acquisition, rehabilitation and resale, demolition/rebuilding and new construction, Affordability Gap and Value Gap. In some cases, funds for owner-occupied rehabilitation and downpayment assistance may be provided if the articulated community need for the funds cannot be served by other Agency programs or other available programs and resources.

Procedural Manual
This Procedural Manual sets forth for Administrators the terms and conditions under which Minnesota Housing will award Impact Fund Dollars to Administrators.

Chapter 1 – Partner Responsibilities/Warranties

(See Appendix C, Section A for Chapter 1 Documentation Requirements.)

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Fund Availability, Disbursement and Loan/Grant Agreement (hereinafter referred to as the "Agreement") executed between the Administrator, Processing Entity (if applicable) and Minnesota Housing. It is incorporated into the 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; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

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

1.02 The Agreement

If an Administrator submits their Impact Fund Application for Funds to Minnesota Housing and is selected to receive Impact Fund Dollars, Minnesota Housing will execute the Agreement outlining the legal relationship and responsibilities of the Administrator to Minnesota Housing.

The Agreement is labeled with an Impact Fund Agreement ID Number, which is the unique identifier for the Agreement. The Administrator must use this Impact Fund Agreement ID Number on all forms and correspondence to Minnesota Housing.

1.03 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 Impact Fund 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 Household. This includes Impact Fund Dollars, together with all applicable administrative costs and other fees or commissions received by the Administrator in connection with the Impact Fund Dollars and for all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the Impact Fund Dollars or recovery thereof.

1.04 Compliance with Privacy Statutes

The Minnesota Government Data Practices Act:

- Requires the Administrator to supply Borrowers and Households receiving Grant funds with the Tennessen Warning and the Privacy Act Notice when requesting private data[1];
- Governs when the disclosure of the Borrower's social security number is required;
- Provides that when a Household receives a deferred or amortized loan, only the Borrower's name, address and amount of assistance received are public data and may be released;
- Further provides that all data regarding a Household that receives or benefits from a Grant, except the amount of assistance, are private data on individuals and may not be released without the Household's permission; and
- Provides that with both Grant and loan assistance, all other data created by or collected from the Household, including financial information such as credit reports, financial statements and net worth calculations, are classified as private data on individuals under Minnesota Statutes §462A.065 and §13.462 subdivision 3.

1.05 Unauthorized Compensation

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

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

In order to reduce the total development cost associated with an eligible property, an Administrator may receive discounts from the seller, builder, remodeler, contractor, or supplier. In these cases, the Administrator file must be documented to prove that the discounts received are considered normal for the market area and do not constitute a kickback, commission, rebate or compensation for products or services rendered. Any discounts that exceed the norm must 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 § 13.02, Subd. 16. Other Administrators shall provide a Tennessen Warning and Privacy Act Notice and may use the applicable, fillable Tennessen Warning and Privacy Act Notice located on the Impact Fund Forms page of Minnesota Housing's website.

1.06 Audit and Monitoring Guidelines and Requirements

The Administrator is required to keep on file a complete copy of all documents for each activity completed.

With reasonable notice to the Administrator and/or the Household, Minnesota Housing reserves the right to make site visits or conduct an audit related to all Project files utilizing any Impact Fund Dollars.

Project files, including Administrator, Household and Construction/Property files may be requested to be made available in order to conduct:

Monitoring

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

- Physical inspection of eligible properties; and
- Verification of accounting and Project files including eligibility requirements and documentation requirements (see Appendix C).

Audits

Project files may be requested to be forwarded to Minnesota Housing for review. Audited files are reviewed for:

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

For documentation requirements, see Appendix C.

1.07 Term of Funds Availability

Minnesota Housing reserves the right to cancel the Agreement if it is not executed and returned to Minnesota Housing within 60 days of receipt.

Impact Fund Dollars will be available to the Administrator for a period of 20 months unless otherwise stated by Minnesota Housing in the Agreement.

Any Impact Fund Dollars not used by the Administrator during that 20-month period shall be repaid to Minnesota Housing in accordance with the terms and conditions outlined in the Agreement. Minnesota Housing, at its sole discretion, may extend the period Impact Fund Dollars are available to the Administrator.

1.08 Termination of Administrator Participation

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

- This Procedural Manual;
- The Agreement;
- The procedural manual and agreements of other Minnesota Housing programs;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Homebuyer's rights with regard to obtaining homeownership;
- The Application for Funds; and
- Other applicable state and federal laws, rules and regulations.

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

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.

1.09 Representations and Warranties

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

- Title 24, Code of Federal Regulations, Part 35, Subpart A;
- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act and any applicable regulations and orders thereunder;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Law (Title VIII);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);

- Minnesota Statutes Section 462A.05 Subdivision 2;
- Minnesota Statutes Section 462A.33;
- Minnesota Rules 4900.3600-3652;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Minnesota Secure and Fair Enforcement for Mortgage Licensing Act (S.A.F.E. Act) of 2010;
- Minnesota Statutes §58A.03
- 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;
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement Procedures Act of 1974, as amended.

In addition to the above warranties and representations, Administrator also warrants and represents that:

- It is either a city; a joint powers board established by two or more cities; a federally recognized American Indian tribe or subdivision located in Minnesota, a tribal housing corporation, a Private Developer, a nonprofit organization, a public housing agency or a natural person who is the owner of the eligible housing;
- It will fully comply with all terms and conditions in the Agreement, the Single Family RFP, the Application for Funds and this Procedural Manual for each eligible activity undertaken unless prior written approval is obtained from Minnesota Housing;
- It will comply with the Minnesota Housing Lead Based Paint Guidebook if the activity includes the identification and correction of health and safety hazards;
- It will comply with standard underwriting requirements of the secondary market and prudent lenders that originate Deferred Loans for similar Projects;
- It will use Impact Fund Dollars for an eligibility activity or eligible activities;

- It will use Impact Fund Dollars in accordance with the eligible activity or eligible activities outlined in the Administrator's Impact Fund Application for Funds;
- It will close the Deferred Loan in accordance with the Agreement and this Procedural Manual;
- It will control the disbursement of Deferred Loan, Interim Loan and Grant proceeds in accordance with the terms of the Agreement and this Procedural Manual;
- It will monitor the construction or rehabilitation of the Qualified Dwelling Unit in accordance with the terms of the Agreement and this Procedural Manual;
- It will obtain and review all applicable documentation to determine and record compliance with all Minnesota Housing requirements;
- It will maintain adequate capital and trained personnel for the administration of the Impact Fund Dollars;
- It will not assign any agreements executed with Minnesota Housing without prior written approval from Minnesota Housing;
- It will represent in the Application for Funds, the specific organization with which it intends to sign the Agreement with Minnesota Housing and to which Impact Fund Dollars will be disbursed;
- The Project owner has good and marketable fee simple title to or a long-term "mortgageable" lease for the real estate;
- If the Project is subject to a mortgage, lien or other encumbrance, it is a mortgage, lien or other encumbrance acceptable to prudent lenders that make loans and/or Grants for similar Projects; and
- It is an entity duly formed or incorporated under the laws of the State of Minnesota.

1.10 Processing Entity

- When the Administrator's capacity or federal/state laws or acts prevents the Administrator from directly administering funds for the Impact Fund Program, a Processing Entity is designated by the Administrator at the time of Administrator's Impact Fund Application for Funds.
- The Processing Entity must enter into a contractual relationship with Minnesota Housing and Administrator by executing the Agreement. This includes, but is not limited to responsibility for instances of fraud or misrepresentation as well as the requirement to repay the funds if warranted.

1.11 Affirmative Marketing

The Administrator must take necessary steps to affirmatively market to Underserved Populations.

Chapter 2 – Household Eligibility Requirements

(See Appendix C, Section B for Chapter 2 Documentation Requirements.)

2.01 Households

One individual or multiple individuals are eligible to be a Homebuyer or Homeowner only if such individual or individuals meet the requirements of this Procedural Manual. Households receiving Impact Fund Dollars must be Owner-Occupants.

A Homebuyer is a type of Household eligible to benefit from the use of Impact Fund Dollars in the new construction or acquisition and/or rehabilitation of a Qualified Dwelling Unit or for Affordability Gap financing to purchase a Qualified Dwelling Unit.

A Homeowner is a type of Household eligible to use Impact Fund Dollars for the rehabilitation of a Qualified Dwelling Unit in which there is an ownership interest by the Household.

In addition to above-noted requirements, Households served by an Indian Housing Set-Aside must be considered an American Indian Household. Verification of tribal affiliation or membership is required.

2.02 Household Selection

The Administrator must establish and maintain a Household selection process, which ensures that Households meet Impact Fund requirements.

2.03 Household Affordability Gap Eligibility

The Administrator's Household selection process must include an assessment of the Households' needs for Affordability Gap assistance indicated by the housing-to-income ratio. Generally, a Household eligible for Affordability Gap assistance must spend no less than 25% but no more than 30% of gross monthly income for housing payments. Housing payments include monthly principal and interest on the first mortgage, second mortgage principal and interest if any, Home Owners Association (HOA) fees if any, property taxes, hazard insurance and mortgage insurance.

To serve certain Low Income Households at a lower housing ratio than 25%, an Administrator must establish an Affordability Gap eligibility policy that specifies a lower minimum housing ratio given programmatic goals to promote sustainable homeownership. The lowest minimum housing ratio to be permitted by Minnesota Housing via an Affordability Gap eligibility policy is 20 percent.

Minnesota Housing may, at its sole discretion, waive the ratio requirement for Affordability Gap financing on a case by case basis, when the Administrator provides a written waiver request.

2.04 Homebuyer Age

Homebuyer(s) must be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction.

2.05 Unauthorized Compensation

Households shall not receive kickbacks, rebates, discounts, and/or compensation from any party in the transaction.

2.06 Principal Residence/Occupancy Requirements

Each Household that receives Impact Fund Dollars must occupy the eligible housing as their Principal Residence.

2.07 Impact Fund Eligibility Income

The Administrator may establish income limits for each eligible activity they undertake with Impact Fund Dollars. These limits may not exceed 115% of state or area median income (AMI). The Household's Annualized Gross Income may not exceed levels that would qualify them as Low and Moderate Income Households.

The Annualized Gross Income is the earned or unearned income of the parties in the Household as described below from sources outlined in the list below (not including the exceptions that follow).

Parties Whose Income Must be Included When Calculating Annualized Gross Income

The income of the following persons must be verified and included when calculating Annualized Gross Income for Homebuyers of Qualified Dwelling Units constructed or rehabilitated using Impact Fund Dollars or Homebuyers receiving Impact Fund Affordability Gap assistance:

- Anyone who will have title to the subject property and signs the Mortgage Deed.
- Anyone expected to reside in the subject property and who will be obligated to repay the underlying mortgage loans (signs the Note) but who is not in title to the subject property; i.e. the Co-Signer (not named in title to the subject property and does not sign the Mortgage Deed).
- The legal spouse of the mortgagor who will also reside in the subject property.

The income of the following persons must be verified and included when calculating Annualized Gross Income for Homeowners of Qualified Dwelling Units receiving Impact Fund owner-occupied rehabilitation assistance:

- Anyone in title to the subject property who has signed the Mortgage Deed.
- The legal spouse of the mortgagor who also resides in the subject property.

If the mortgagor is legally married and the spouse does not or is not expected to reside in the subject property, the Household file must contain either the Non-Occupant Spouse Statement or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.

Any person whose income must be included in the Annualized Gross Income calculation who receives no income must sign either the Zero Income Statement or another statement indicating he or she receives no income.

Co-Signers
Co-signers are permitted on first mortgage loans originated for Homebuyers of Qualified Dwelling Units receiving Impact Fund Dollars. Co-signers are not vested in title and may reside in the subject property.

Annualized Gross Income Calculation
Total Annualized Gross Income is calculated using Annualized Gross Income. It includes but is not limited to:

- Base pay, which includes full-time, part-time or seasonal work with regular hours, expressed hourly, weekly or monthly, etc.;
- Variable income, which includes irregular hourly income, income from commissions, overtime and bonuses, income from irregular employment, shift differential, tips, profit sharing, sick pay, holiday pay and vacation pay;
- Self-Employment or Business Income;
- Income from financial assets, trusts or annuities, including but not limited to, dividends, royalties and interest earned from non-retirement accounts;
- Government Transfer Payments, including retirement benefits, disability benefits, medical benefits, social security benefits, pensions, veterans' benefits, workers' compensation, public assistance, unemployment benefits, federal education and training assistance and income maintenance benefits;
- Insurance or benefit payments, such as long-term care insurance, disability insurance, pensions or death benefits;
- Net rental income from investment property;
- Contract-for-deed interest income;
- Child and/or spousal support payments;
- Regular cash contributions;
- Employer-paid allowances such as housing, automobile, cell phone, etc.;
- Flexible benefit cash;
- Custodial account income;

- Estate income; and
- Other sources of income.

The following types of income are excluded from the Annualized Gross Income calculation:

- Income no longer available;
- One-time (non-recurring) income; for example, income received once that does not have a history and is unlikely to reoccur in the future;
- Income generated by IRA, VIP, 403(b), and 401(k) accounts;
- Food stamps, Meals on Wheels, contributions of food;
- Government-paid child care which is paid directly to the provider;
- Foster care income;
- Educational scholarships, grants, loans or tuition reimbursement;
- Earned Income Tax Credit refund payments;
- Potential roommate income or rental income of future duplex or accessory dwelling unit;
- Court-ordered child or spousal support not received;
- 529 plans;
- Custodian accounts where someone other than the parents are named as custodian;
- Unearned income of adult dependents; and
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements
  - Lottery winnings
  - Gambling winnings
  - Capital gains
  - Liquidation of assets
  - Settlements for personal loss.

Chapter 3 – Property Eligibility

(See Appendix C, Section C for Chapter 3 Documentation Requirements.)

3.01 Qualified Dwelling Unit

A Qualified Dwelling Unit must:

- Be attached or detached, owner-occupied housing including manufactured homes;
- Be residential in nature and have a remaining economic life equal to the loan term plus 10 years;
- Be occupied by an eligible Household;
- Be Affordable to the Local Workforce;
- Be able to be completed by the end of the 20-month period during which Impact Fund Dollars are available to the Administrator; and
- Contain no more than four units with at least one unit being occupied by the Household.

3.02 Title Examination Requirements

At the time an Administrator or Homebuyer acquires title to a Qualified Dwelling Unit, the title for that Qualified Dwelling Unit must be established by way of an attorney's legal title opinion or a title insurance policy showing the Administrator or Homebuyer is acquiring clear and marketable title.

In the case of tribal lands, the Administrator must ensure that the proper official of the tribal land office establishes a clear and marketable title as defined by the tribe governing the land on which the Qualified Dwelling Unit is located.

3.03 Community Land Trusts

A Community Land Trust (CLT) must meet the following conditions:

- The CLT must provide evidence, satisfactory to Minnesota Housing, that Homebuyers purchasing Qualified Dwelling Units in the CLT receive full disclosure of their rights and obligations under the trust, including future limitations on sale;
- The CLT must submit evidence, satisfactory to Minnesota Housing, that land trust Homebuyers have access to the secondary mortgage market; and
- The terms and conditions of the CLT must be compatible with those developed by the National CLT Network and otherwise satisfactory to Minnesota Housing.

3.04 Reasonable Cost Estimates for Improvements

The Administrator must determine and document that all costs as represented in the Scope of Work are reasonable and cost effective. To that end, the Administrator must include any of the following documents in the file:

- Bids and/or estimates for improvements from a licensed contractor(s);
- A cost study, performed by a disinterested third party showing the cost of improvements conforms to other projects in the area; or
- Other documentation that has been approved by Minnesota Housing.

3.05 Building Code Compliance

All eligible activities must be in compliance with all applicable state, county and municipal health, housing, building, fire prevention, and housing maintenance codes and local ordinance or other public standards.

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

In areas of the State where there is no local building code or where the State building code has not been adopted, the Administrator must include in its contracts a requirement that improvements are completed in accordance with the State Building Code.

Tribal Housing Awards

When working within tribal reservations and/or on tribal lands, the governing tribal laws and regulations relating to building and zoning shall be used to meet the requirements of this Section.

Chapter 4 – Eligible Activities

(See Appendix C, Section C for Chapter 4 Documentation Requirements.)

4.01 Eligible Activities

Impact Fund Dollars **may** be used for:

- Acquisition of land or existing structures;
- Construction of housing;
- Rehabilitation of housing;
- Conversion to housing from another use;
- Site preparation;
- Demolition or removal of existing structures ;
- Construction financing;
- Construction of development infrastructure directly related to the Qualified Dwelling Unit such as connection to city water and sewer;
- Reduction of interest rates only when used in conjunction with the Minnesota Housing's Community Fix Up Loan Program home improvement or lead hazard reduction;
- Financing to fill a Affordability Gap or Value Gap;
- Innovative approaches to housing construction or rehabilitation; or
- Soft costs as defined in section 5.04.

Eligible activities must end in the maintenance or construction of a Qualified Dwelling Unit.

4.02 Ineligible Activities

Impact Fund Dollars **may not** be used for:

- Non-owner occupied housing;
- Community development projects including, but not limited to, parks or community centers;
- The construction of public development infrastructure, including but not limited to, city water, sewer, curbs and gutters that are not directly related to the development or rehabilitation of Qualified Dwelling Units;
- The construction of private infrastructure that does not lie within the land upon which the Qualified Dwelling Unit to be owned solely by the Owner-Occupant is located;
- Administration costs not connected to the development or rehabilitation of Qualified Dwelling Units;

- Individuals who want to refinance their existing loan; and
- Improvements for commercial use.

4.03 New Construction Requirements

All required program documentation that must be included in the Construction/Property file is listed in Appendix C, Sections C1 and C2. See also Section C5 (if applicable).

Visitability requirements apply for all newly constructed properties financed in whole or in part by Minnesota Housing's state-appropriated Interim Loan dollars. Minnesota Housing may offer 2% Interim Loan dollars under the Single Family RFP from other fund sources which do not require visitable unit construction.

Visitability Elements are:

- One no-step entrance;
- 32-inch opening doorways throughout the Qualified Dwelling Unit not to include closet doors; and
- At least a half bath on the main level that meets minimum clearance criteria.

Green Communities Criteria

- If Impact Fund Dollars are used to assist new construction Qualified Dwelling Units, the units must comply with the national Green Communities mandatory criteria as modified by the Minnesota Overlay to the National Green Communities Criteria, at the time of application.
- For additional requirements and guidance regarding Green Communities Criteria, please refer to Minnesota Housing's Minnesota Overlay to the National Green Communities Criteria guidebook found on Minnesota Housing's webpage.

4.04 Acquisition-Rehabilitation-Resale

All required program documentation that must be included in the Construction/Property file is listed in Appendix C, Sections C1 and C2. See also Section C5 (if applicable).

All acquisition-rehabilitation-resale Qualified Dwelling Units assisted with Impact Fund Dollars must meet the following criteria:

- HUD's Housing Quality Standards (HQS);
- The most current version of the National Green Communities criteria as modified by the Minnesota Overlay to the National Green Communities Criteria at the time of application, as follows:

  - Projects involving Acquisition with Substantial Rehabilitation must follow all "Mandatory" Green Communities criteria as modified by the Minnesota Overlay except when exempted by Project type (where specifically noted as "New Construction only" or "Moderate Rehab");
  - Projects involving Acquisition with Moderate Rehabilitation have a set of minimum requirements. However, if specific additional improvements are made at the time of rehabilitation (e.g., new finishes, replacement of equipment, systems, building components, or assembly of components), then any applicable mandatory criterion related to the specific building component or system is also required. E.g., Criterion 5.3 will be required if heating or cooling equipment will be replaced as part of the Project; or Criterion 6.1, which requires Low/No VOC[2] paints and primers, will be required if interior painting is part of the Project; and
- Minnesota Housing Lead Based Paint Guidebook requirements must be satisfied if an acquisition-rehabilitation-resale Project includes the identification and correction of lead-paint related health and safety hazards. The requirements in the Minnesota Housing Lead Based Paint Guidebook must be satisfied.

Substantial and Moderate Rehabilitation Project types are specifically defined in the Minnesota Overlay to the National Green Communities Criteria. In addition, the following guidance also applies to these Project types:

A **Substantial Rehabilitation** (or Gut Rehab) Project includes the replacement and/or improvement of all the major systems of the building, including its envelope. All of the following systems must be addressed in the rehabilitation scope of work to be considered Substantial Rehabilitation:

- Building Envelope – including, but not limited to the roof; exterior walls; siding; windows and doors; and repairs to the building's foundation;
- Plumbing – including, but not limited to water lines; gas lines; plumbing fixtures; and drain lines;
- Electrical – including, but not limited to wiring and lighting fixtures; and
- Heating, ventilation and air conditioning systems.

A **Moderate Rehabilitation** Project does not include all major systems and building envelope work as described for Substantial Rehabilitation.

4.05 Owner-Occupied Rehabilitation

All required program documentation that must be included in the Project file is listed in Appendix C, Sections B and C4. See also Section C5 (if applicable).

[2] Volatile Organic Compound

If Minnesota Housing awards an Administrator Impact Fund Dollars in the form of interest-free Deferred Loan funds to operate an owner-occupied rehabilitation program for eligible Homeowners, all requirements of Chapter 6, Part 1, Deferred Loans – Challenge Proceeds, apply.

The requirement to comply with the national Green Communities mandatory criteria as modified by the Minnesota Overlay to the National Green Communities Criteria is not applicable to owner-occupied rehabilitation programs.

If an owner-occupied rehabilitation Project includes the identification and correction of health and safety hazards, the Minnesota Housing Lead Based Paint Guidebook must be followed.

4.06 Affordability Gap

All required program documentation that must be included in the Project file is listed in Appendix C, Sections B and C3. See also Section C5 (if applicable).

Funds awarded for Affordability Gap must be approved by Minnesota Housing for one or more of the following specific uses:

- Downpayment assistance for a Homebuyer;
- Closing costs associated with a Homebuyer's first mortgage;
- Prepaid finance charges associated with a Homebuyer's first mortgage;
- Long-term (30+ years) subsidy tied to real property; and/or
- Other Affordability Gap assistance to a Homebuyer as approved by Minnesota Housing.

If Minnesota Housing awards to an Administrator Impact Fund Dollars in the form of interest-free Deferred Loan funds to finance Affordability Gap for eligible Homebuyers, all requirements of Chapter 6, Part 1, Deferred Loans – Challenge Proceeds, apply.

If Minnesota Housing awards and Administrator Impact Fund Dollars in the form of Grant funds to operate an Affordability Gap financing program for eligible Homebuyers, all requirements of Chapter 7, Grants, apply.

For Impact Fund-supported programs that provide Affordability Gap financing to buyers who may obtain an FHA-insured first mortgage, the FHA must approve the program. In order to obtain FHA approval, the Administrator's program must require use of the Department of Housing and Urban Development (HUD)-determined maximum eligible income limits for secondary financing of 115% of area median income adjusted by family size.

Chapter 5 - General Administration of Impact Fund Award

All required program documentation that must be included in the Administrator file is listed in Appendix C, Section A. See also Section 5 (if applicable).

5.01 Fund Types

Minnesota Housing will award Impact Fund Dollars to Administrators in the form of:

- An Interim Loan;
- A Deferred Loan; or
- A Grant.

5.02 Prohibition Against Layering Impact Fund Dollars

Impact Fund Dollars awarded to an Administrator in the form of a Deferred Loan or Grant may not be used for a Project that has previously been awarded or has a current commitment to award Deferred Loan or Grant funds from the Impact Fund unless specifically approved in writing by Minnesota Housing. It is the responsibility of each Administrator to review funding sources in a unit to ensure layering will not occur.

An exception to this rule is made for Interim Loan funds that will be repaid to Minnesota Housing.

5.03 Impact Fund Per-Unit Investment

If an Administrator seeks to increase an individual unit investment of Deferred Loans or Grants by more than 50% of the maximum per unit investment as stated in the Agreement or the average per unit investment of Deferred Loans or Grants indicated under an Agreement with no stated maximum, the Administrator must obtain prior written approval by Minnesota Housing.

An exception to this rule is made for Interim Loan funds that will be repaid to Minnesota Housing.

5.04 Eligible Costs

Eligible Costs include hard and soft costs directly related to eligible activities, which culminate in the construction or rehabilitation of a Qualified Dwelling Unit.

Hard costs include, but are not limited to:

- Land and property acquisition;
- Demolition;
- Site Preparation;
- General construction costs;

- Lead mitigation or abatement; and
- Contingency costs.

Soft costs incurred by the Administrator must be reasonable and necessary as well as being directly related to the financing of acquisition, construction or rehabilitation of Qualified Dwelling Units. Soft costs include, but are not limited to:

- Architectural, engineering or related professional services required to prepare plans, drawing, specifications, or work write-ups;
- Costs to process and settle the financing for a Qualified Dwelling Unit, such as:
    - Private lender origination fees;
    - Credit reports;
    - Fees for the title evidence;
    - Fees for recordation and filing of legal documents;
    - Building permits;
    - Attorney fees;
    - Appraisal and independent cost estimate fees; or
    - Builder or developer fees.
- Costs of any audit that Minnesota Housing may require with respect to Impact Fund Dollars;
- Costs to provide information services such as affirmative marketing and fair housing information to prospective Households; and
- Staff and overhead costs directly related to carrying out an eligible activity, such as:
    - Preparation of work specifications;
    - Deferred Loan or Grant processing;
    - Inspections; and
    - Other services related to assisting Households.

5.04 Administration Fees

Administrators not directly involved in the development of a Qualified Dwelling Unit and not compensated by a builder or developer fee may take an administration fee. Typically, this fee is paid at time of closing and is noted as a separate line item on the HUD-1 Settlement Statement.

- Minnesota Housing requires the disclosure of all Deferred Loan or Grant administration fees charged to the Household as part of the Administrator's Impact Fund Application for Funds.

- Minnesota Housing requires Administrators to include administrative fees in the total development cost of the Qualified Dwelling Unit whenever possible. If Administrators charge a fee to the Household as a closing cost, the following requirements apply:
  - The maximum administrative fee for a Qualified Dwelling Unit is $500. Administrative fees higher than the maximum allowed fee of $500 per unit may be approved at the sole discretion of Minnesota Housing if transaction costs to the Administrator are excessive and the need for the increased Administrative Fee is adequately justified by the Administrator. The Administrator's Impact Fund Application for Funds must itemize the higher costs.
  - When layering with applicable Minnesota Housing partners in a transaction, the policy allows for only one administrative fee charged to the Household. A list of applicable Minnesota Housing partners can be found on Minnesota Housing's website each year under single family RFP materials, partners/co-funders.
  - The fee must be disclosed to the Household in advance with a description of what costs the fee covers.
  - The fee must reflect the administration costs of Deferred Loans or Grants including:
    - Securing and maintaining the funding source;
    - Borrower education specific to the Deferred Loans or Grants;
    - Lender identification, communication, and coordination;
    - Requesting the funds from Minnesota Housing for specific transactions;
    - Document preparation;
    - Tracking and reporting and other costs specific to the Deferred Loans or Grants; and
    - Other costs as approved in writing by Minnesota Housing.
  - The fee may not contain costs including but not limited to:
    - Homebuyer education and counseling not specific to the Deferred Loans or Grants;
    - General consumer credit counseling;
    - CLT borrower education; or
    - Other costs not specific to the Deferred Loans or Grants.
  - The description of the fee must reference the Impact Fund Program and may not reference any other Minnesota Housing mortgage or downpayment assistance program. Charging an administration fee for any other Minnesota housing mortgage or down payment assistance program would violate the terms of those programs.
  - Fees to cover other costs such as credit counseling, CLT education and CLT document preparation may be charged in addition to the Deferred Loan or Grant administration fee in accordance with industry regulations, laws and practices.

5.05 Developer Fees

Administrator directly involved in the development of a Qualified Dwelling Unit may charge a builder or developer fee. This fee is paid at the time of closing from home sale proceeds and is noted as a separate line item on the HUD-1 Settlement Statement. The maximum developer fee an Administrator may charge is 10% of the Qualified Dwelling Unit's total development cost however, Administrators are encouraged to charge a lesser amount.

Providing only Affordability Gap financing or owner-occupied rehabilitation financing to an eligible Household is not an eligible activity for which an Administrator may charge a developer fee.

Administrators may not charge both an administrator fee and a developer fee for a Qualified Dwelling Unit.

Chapter 6 – Deferred Loans

All required program documentation that must be included in the Household/Borrower file and the Construction/Property file is listed in Appendix C, Sections B and C.

Part 1 – Deferred Loans - Challenge Proceeds

6.01 General

Impact Fund Dollars may be provided to an Administrator or Household in the form of an interest-free Deferred Loan to:

- Provide Affordability Gap financing for Households (Homebuyers);
- Bridge funding gaps not covered by a first mortgage or other sources of funding for Qualified Dwelling Units on behalf of the Administrator;
- Provide financing for Owner-Occupied Rehabilitation, or
- To support other eligible activities as specified in the Agreement.

6.02 Disbursements

Administrators will not receive disbursements from current awards until past award outstanding Level 3 Monitoring Exceptions have been cleared by Minnesota Housing.

Administrators must submit a fully executed Request for Funds Form to request disbursement of funds. By executing the Request for Funds the Administrator certifies that the activity delineated in the Agreement has commenced and that the funds being requested will be used to support that activity.

The Request for Funds form is located on Minnesota Housing's website.

Disbursement of Funds to the Administrator may occur after the Agreement is fully executed as follows:

- If the award ≤ \$50,000 – 1 disbursement;
- If the award > \$50,000 – up to $^1/_3$ of the total is available in the first disbursement at the discretion of Minnesota Housing;
    - When the Administrator has demonstrated (via submission of the Household Demographic and Project Information Form) that a significant portion of the award has been provided to Households, Minnesota Housing, at its sole discretion will make further disbursements to the Administrator upon receipt of the fully executed Request for Funds form; and
    - Disbursements depend upon Project progress as reported by the Administrator and at the sole discretion of Minnesota Housing.

- Minnesota Housing may forward disbursements via wire; electronic funds transfer (EFT) or check, upon execution of the Agreement and receipt of the fully executed Request for Funds form within 10 business days from the receipt of the request.

Notwithstanding the above listed requirements, Minnesota Housing reserves the right to disburse funds more conservatively, i.e.: unit by unit or Project by Project. All disbursements must be used in accordance with this Procedural Manual.

6.03 Mortgage Documents

The Administrator must require the Borrowers to execute the Impact Fund Mortgage and Impact Fund Mortgage Note provided by Minnesota Housing and available on Minnesota Housing's website.

The Impact Fund Mortgage is the legal document used to secure a loan on a Qualified Dwelling Unit. The Household is required to be a party to the mortgage in order to protect the Impact Fund subsidy. The Mortgage must be assigned to Minnesota Housing.

The Impact Fund Note is legal evidence of the debt to be repaid. The Note must be endorsed to Minnesota Housing.

6.04 Nationwide Mortgage Licensing System (NMLS) Registration

- In compliance with the S.A.F.E. Act, all Administrators, including local units of government and non-traditional lenders must determine which staff members are considered mortgage loan originators and must comply with the S.A.F.E. Act and which staff members are exempt from compliance with it.
- The Minnesota Department of Commerce requires (pursuant to MS §58A.03 subd.2) all mortgage lenders and entities deemed exempt to register with the Nationwide Mortgage Licensing System & Registry and obtain a unique identifier number.

6.05 Repayment

Unless otherwise outlined in the Agreement, Borrower(s) must repay Deferred Loans upon the first occurrence of any of the following events:

- When the Qualified Dwelling Unit is sold, transferred, or otherwise conveyed by the Borrower;
- The date of repayment of the first mortgage, if co-terminus with the Deferred Loan, or
- On the date that is 30 years from the date of the loan closing or at the end of the loan term as delineated in the Impact Fund Mortgage Note.

There may be certain situations which will require repayment of the Deferred Loan when the Borrower(s) cease to occupy the property as their primary residence. Deferred Loans to the Administrator are required to be repaid as per the Agreement.

6.06 Revolving Funds

Minnesota Housing may, at its sole discretion and on a case by case basis, provide Impact Fund Dollars to an Administrator in the form of a Deferred Loan that may be revolved for the same eligible activity outlined in the Agreement.

The Administrator's ability to revolve the Impact Fund Dollars received beyond the initial two years may be renewed upon application to and approval by Minnesota Housing. Minnesota Housing may at its sole discretion, require the Administrator to apply to renew the ability to revolve the funds through the Single Family RFP.

6.07 Homeowner/ Volunteer Labor Policy

Impact Fund Deferred Loan proceeds may not be used to pay for materials for repair or rehabilitation completed by the Homeowner(s) or volunteer(s) unless Minnesota Housing approves the purchase of these materials as an eligible cost identified in the Administrator's Impact Fund Application for Funds. If approved, Minnesota Housing reserves the right to require the Administrator to document the materials used and their respective costs.

All work completed with homeowner labor must comply with Section 3.05 of this Procedural Manual. Under no circumstances will Minnesota Housing pay or reimburse the cost of labor performed by the Homeowner or any other Household resident.

Part 2 – Deferred Loans - Housing Infrastructure Bond Sale Proceeds

In addition to the requirements listed below, CLT Administrator Projects awarded Impact Fund Dollars resulting from the sale of Housing Infrastructure Bonds must meet the requirements in section 6.02 of this Procedural Manual.

6.08 General

According to statute, Minnesota Housing may issue Housing Infrastructure Bonds to generate proceeds for specific purposes, including providing CLT Administrators Impact Fund Dollars to finance the following uses related to land owned by or to be owned by a Community Land Trust:

- Acquisition of land;
- Demolition; and/or
- Utility connections.

Deferred Loans offered as a result of the sale of Housing Infrastructure Bonds are structured as forgivable after a period of 30 years.

6.09 Properties Eligible to be Financed with Bond Proceeds

When Deferred Loan – Bond Proceeds are used on a property where an eligibility activity occurs as specified in Sections 4.01 and 6.08 of this Procedural Manual, a property must be either “Abandoned” or “Foreclosed”, defined as follows:

- “Abandoned” property is property that:
  - Has been substantially unoccupied or unused for any commercial or residential purpose for at least one year by a person with a legal or equitable right to occupy the property;
  - Has not been maintained; and
  - For which taxes have not been paid for at least two previous years.
- “Foreclosed property” is defined as residential property where foreclosure proceedings have been initiated or have been completed and title transferred or where title is transferred in lieu of foreclosure.

Other properties considered “Foreclosed” are:

- A property still occupied by a homeowner which has gone through tax forfeiture. To adequately document tax forfeiture status, the CLT must provide in the file, a copy of the published county tax forfeiture listing, notice of expiration of redemption period or other proceedings in the tax forfeiture process.

- A property still occupied by a homeowner where foreclosure proceedings have been initiated, which requires recordation of the notice of pendency or notice of lis pendens. The CLT Administrator may acquire and sell the property under the community land trust model, to an eligible Owner-Occupant or to the same homeowner if the CLT obtains a copy of the recorded notice of pendency or the recorded notice of lis pendens for the file.
- A foreclosed property that is first purchased and/or rehabilitated by a non-CLT organization before being sold to an eligible CLT Administrator may be sold to an eligible Owner-Occupant providing no one has occupied the property as his or her residence during the period between property acquisition by the non-CLT organization and purchase by the CLT Administrator.

6.10 Additional Documentation Required

Files for Projects using Deferred Loan – Bond Proceeds must contain the documents in Appendix C to this Procedural Manual. Additional documentation requirements for the Project File are listed below.

For Abandoned Property

Each file must contain documented evidence provided by a sheriff, deputy sheriff, building inspector, zoning administrator, housing official or other county official that:

- The property was substantially unoccupied or unused by any person with a legal or equitable right to occupy the property for any commercial or residential purpose for at least one year; and
- The property has not been maintained.

In addition to the above-noted 2 requirements, each file for an abandoned property must contain one of the two following documents:

- A statement from the county auditor that property taxes have not been paid for the previous two years; or
- A published delinquency list provided by the county auditor indicating property taxes are delinquent for at least the two previous years.

<u>An appraisal or Multiple Listing Service (MLS) real estate listing is insufficient documentation to meet the requirements for this section</u>.

For Foreclosed Property

To show that foreclosure proceedings have been initiated or have been completed, the CLT Administrator must obtain one of the following types of documents for each Project file:

- Initiated – the recorded notice of pendency or the recorded notice of lis pendens; or

- Completed – the title showing transfer happened or documents evidencing title was transferred in lieu of foreclosure.

Acceptable alternative documents include:

- A property tax delinquency list published by the county auditor; or
- Subsequent documents in the tax forfeiture process such as Notice of Expiration of Redemption Period.

An appraisal or Multiple Listing Service (MLS) real estate listing is insufficient documentation to meet the requirements for this section.

For All Properties
To support the property's designation as an "Abandoned" or "Foreclosed " property, within 14 days of the sale of a Project funded in whole or in part by Deferred Loan - Bond Proceeds, the Administrator shall provide Minnesota Housing the following:

- A certificate identifying the amount of the Deferred Loan – Bond Proceeds applied to a Project, and the costs of any eligible site clearing, demolition and utility connection for the Project. Minnesota Housing has provided the *Certificate of Administrator as to Expenditure of Deferred Loan – Bond Proceeds* as the required form to be used for this purpose. The Certificate must be executed by an officer of the Administrator responsible for its financial management or reporting;
- The market value of the real property relating to the Project (evidenced by a current appraisal accompanying the Certificate); and
- The Household Demographic Form must be submitted to Minnesota Housing upon unit sale to an eligible Owner-Occupant.

6.11 Disbursement of Deferred Loan - Bond Proceeds

Prior to the disbursement of any Deferred - Loan Bond Proceeds, Minnesota Housing must approve the form of the Lease, containing applicable income restrictions to be used by the CLT Administrator for the Project.

No disbursements will be made to a CLT Administrator until all outstanding Level 3 Monitoring Exceptions from past awards have been cleared with Minnesota Housing.

Disbursements must be requested by a CLT Administrator using the Request for Funds form located on the Impact Fund web page. With a Request for Funds, the CLT Administrator must certify that the activity as stated in the Agreement has commenced and that the funds being requested will be used to support this activity.

Disbursement of Deferred Loan - Bond Proceeds awarded to an Administrator may occur pursuant to Section 6.02 of this Procedural Manual.

Notwithstanding the above, Minnesota Housing may, at its sole discretion, disburse funds more conservatively; for example, unit-by-unit or Project-by-Project.

If the amount of Deferred Loan - Bond Proceeds expended for the funded Project exceeds the sum of the market value of the land and the amount of eligible demolition and utility connection costs under the Agreement, the Administrator must, within 30 days of the delivery of the certificate described in section 6.10 of this Procedural Manual, repay Minnesota Housing for the amount of such excess unless otherwise approved in writing by Minnesota Housing.

6.12 Repayment of Bond Proceeds

In general, the CLT Administrator must repay Deferred Loan – Bond Proceeds as specified in the Agreement.

Additional Repayment Requirements

The CLT Administrator's ground lease assures that properties acquired by the CLT Administrator using Bond Proceeds will remain affordable during the term of the bonds. However, the following apply in the event of the following situations:

- If, during the term of the bonds, the property is sold to a non-CLT Homebuyer or leased to a ground lessee that does not meet the income limits established in the CLT Administrator's ground lease, the CLT Administrator must repay Minnesota Housing all or a portion of the bond proceeds lent to the CLT Administrator and allocable to the property.
- If, during the term of the bonds, the Community Land Trust is dissolved or sells bond-financed property to another entity, unless the successor or the purchaser is a community land trust, all or a portion of the bond proceeds, or the portion of the bond proceeds allocable to the bond-financed property sold must be repaid to Minnesota Housing.
- If the community land trust property is foreclosed upon during the term of the bonds, bond proceeds do not have to be repaid to Minnesota Housing.

Chapter 7 – Grants

All required program documentation that must be included in the Household/Borrower file and the Construction/Property file is listed in Appendix C, Sections B and C.

7.01 General

Impact Fund Dollars may be awarded to an Administrator in the form of a Grant if the funds will be used to:

- Provide Value Gap financing; or
- Finance other eligible activities that preserve long term affordability or for which repayment is economically infeasible.

7.02 Disbursements

Administrators will not receive disbursements from current awards until past award outstanding Level 3 Monitoring Exceptions have been cleared by Minnesota Housing.

Administrators must submit a fully executed Request for Funds Form to request disbursement of Grant funds. By executing the Request for Funds the Administrator certifies that the activity delineated in the Agreement has commenced and that the funds being requested will be used to support that activity.

The Request for Funds form is located on Minnesota Housing's website.

Disbursement of Funds to the Administrator may occur after the Agreement is fully executed as follows:

- If the award ≤ $50,000 – 1 disbursement;
- If the award > $50,000 – up to $^{1}/_{3}$ of the total is available in the first disbursement at the discretion of Minnesota Housing;
- When the Administrator has demonstrated (via submission of the Household Demographic and Project Information Form) that a significant portion of the award has been provided to Owner-Occupants, Minnesota Housing, at its sole discretion will make further disbursements to the Administrator upon receipt of the fully executed Request for Funds form;
- Disbursements depend upon Project progress as reported by the Administrator and at the sole discretion of Minnesota Housing; and
- Minnesota Housing may forward disbursements via wire; electronic funds transfer (EFT) or check, upon execution of the Agreement and receipt of the fully executed Request for Funds form within 10 business days from the receipt of the request.

Notwithstanding the above listed requirements, Minnesota Housing reserves the right to disburse funds more conservatively, i.e.: unit by unit or Project by Project. All disbursements must be used in accordance with Section 5.03 and 5.04 of this Procedural Manual.

7.03 Repayment

Grants to the Administrator are required to be repaid as per the Agreement.

Chapter 8 – Interim Loans

All required program documentation that must be included in the Administrator file is listed in Appendix C, Sections B and C.

8.01 General

Minnesota Housing may provide an Interim Loan to acquire, rehabilitate, demolish, and/or construct Qualified Dwelling Units. Whether an Interim Loan to Administrators will bear interest is outlined in the Administrator's Agreement. Interim Loans under the Impact Fund must comply with the provisions of Chapters 1 through 5 and Chapter 9 of this Procedural Manual, as well as with the requirements outlined below.

If an Interim Loan bears interest, interest will accrue at 2% per annum (or another rate as determined by Minnesota Housing) from the date of loan disbursement to the date the Qualified Dwelling Unit is sold to an Owner-Occupant.

If Minnesota Housing determines that a Project requires an Interim Loan and that an interest bearing loan would adversely affect the affordability of the housing for the eligible homebuyers the Administrator will serve, Minnesota Housing may award an interest-free Interim Loan.

8.02 Zero Percent (0%) Interim Loans

If a Project that includes the rehabilitation or construction of Qualified Dwelling Units involves the use of equipment or building materials, or a method of design, construction, marketing or financing which are not generally in use in the housing industry or of which the public is not generally aware, Minnesota Housing may, at the time of application, deem the Project to be innovative, and provide the Administrator with an interest-free Innovative Interim Loan.

Projects selected by Minnesota Housing as innovative must demonstrate qualities such as efficiency, acceptability, effectiveness, durability, and potential for widespread applicability.

8.03 Loan Term

- The term of an Interim Loan is 20 months unless otherwise specified in the Agreement. . Principal and interest, if any, shall be due and payable at the end of the term or when the home is sold to an Owner-Occupant, whichever occurs first.
- Interim Loans shall not be transferred to Homebuyers.
- Minnesota Housing may adjust the Interim Loan term at its sole discretion.

8.04 Revolving Interim Loan Funds

Minnesota Housing may, at its sole discretion and on a case by case basis, allow the proceeds of an Interim Loan to revolve under the following conditions:

- The eligible activity remains feasible;
- The Administrator uses the proceeds for the same eligible activity originally outlined in the Agreement; and
- The Interim Loan term has not expired.

8.05 Disbursement

- No disbursements will be made from an award to an Administrator until all past award outstanding Level 3 Monitoring Exceptions have been cleared with Minnesota Housing.
- Disbursements must be requested by an Administrator using the Request for Funds form, located on the Minnesota Housing Impact Fund website. With a Request for Funds, the Administrator must certify that the activity as stated in the Agreement has commenced, and that the funds being requested will be used to support this activity.
- Upon receipt of the Request for Funds form, Minnesota Housing will forward via wire, electronic fund transfer (EFT) or check of up to 50% of the Interim Loan amount within 10 working days. In the event the Administrator can document a need for more than 50% of the award, Minnesota Housing may disburse more funds. The Impact Fund Dollars must be deposited into an interest bearing account and the Administrator or Processing Entity may retain the interest earned from this account.

8.06 Repayments

Generally, Impact Fund Dollars awarded for an Interim Loan, plus interest due, must be repaid when the eligible activity is complete and the Qualified Dwelling Unit is sold to a Homebuyer. Specific repayment requirements will be detailed in the Agreement.

8.07 Interest Rate Calculation

If the Interim Loan bears interest, interest will begin to accrue upon disbursement of Interim Loan funds from Minnesota Housing to the Administrator. Interest will continue to accrue on the amount disbursed until the date the Interim Loan is repaid to Minnesota Housing. The interest calculation will be completed by Minnesota Housing. If the date of the Homebuyer closing changes, the pay-off figure will also change and the pay-off amount must be recalculated by Minnesota Housing.

Chapter 9 – Reporting, Record Retention and Documentation Requirements

All required program documentation that must be included in the Project file is listed in Appendix C, Section A.

9.01 Records Retention

Administrator must retain any and all compliance documents (including compliance with Minnesota Housing program guidelines) as may be required by the Administrator's regulatory authority, the requirements of the underlying loan product, if any and the requirements of the insurer/guarantor, if any as appropriate.

Minimum and/or alternative documentation requirements of loan or Grant products benefiting the Homebuyer/Household in addition to the Impact Fund Loan or Grant does not relieve the Administrator from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing and/or loan audit.

9.02 Annual Reporting

Annual reporting will be required so that Minnesota Housing can track the progress of each Administrator's eligible activities. All Administrators with an open Agreement will be required to provide an Annual Report known as the "Impact Fund Annual Report/Final Close out Report". Minnesota Housing will provide the format for this report.

An updated "Impact Fund Annual Report/Final Close out Report" must also be submitted when an Impact Fund award is completed. A completed Impact Fund award is defined as follows:

- All Impact Fund resources from a specific award have been expended, returned to Minnesota Housing or approved to revolve by Minnesota Housing;
- All Household Demographic/Project Information forms have been submitted to Minnesota Housing; and
- All Deferred Loan documents have been recorded and submitted to Minnesota Housing as required.

If the completed Impact Fund award has unspent funds, the funds must be returned to Minnesota Housing with the Impact Fund Annual Report/Final Close out Report.

9.03 Mid-Year Reporting

Newly-funded administrators (awarded under the previous year's Single Family RFP) are required to submit a mid-year progress report to demonstrate activity that has happened in the first six months of the award contract. The report format to be used is the "Impact Fund Annual Report/Final Award Close out Report," which must be submitted by July 15 of the year after funds were awarded. Administrators who have made minimal or no progress will be required to answer additional questions to provide information to explain the delay.

Chapter 10 – Servicing of Deferred Loans

10.01 Servicing

Each Administrator will be assigned a designated servicer by Minnesota Housing. Currently. all Impact Fund Deferred Loans are serviced by AmeriNational Community Services, Inc. (AmeriNational) or other servicer designated by Minnesota Housing. Servicing, satisfaction or subordination inquiries should be directed to AmeriNational's Servicing Department.

Minnesota Housing may, at its discretion, designate other servicers.

10.02 Delivery of Loans to Servicer

Administrator must forward the Deferred Loan, along with the required documentation in the prescribed order and format as specified on the Impact Fund website, to Minnesota Housing within 180 days of the buyer closing:

- Copies of the recorded Impact Fund Mortgage and Assignment of Mortgage;
- The original, endorsed Impact Fund Mortgage Note; and
- A completed Household Demographic-Project Information Form.

10.03 Assumption

Loans are not assumable.

10.04 Hardship Policy

Minnesota Housing has in place a hardship policy for its Deferred Loans that allows forgiveness either in part or whole if the Household is experiencing severe financial hardships that prevent full repayment of indebtedness.

Appendix A: Definitions

TERM	DEFINITION
Administrator	The entity, including its Processing Entity, with whom Minnesota Housing has a contractual relationship to administer Impact Fund Dollars and any successors or assigns approved in writing by Minnesota Housing. Eligible Administrators include a city, a joint powers board established by two or more cities, a federally recognized American Indian Tribe or subdivision located in Minnesota, a tribal housing corporation, a private developer, a non-profit organization, a public housing agency or a natural person who is the owner of a Qualified Dwelling Unit.
Affordability Gap	The difference between the total cost of acquiring the dwelling, generally determined by the Fair Market Sales Price of the dwelling, and the amount of the first mortgage loan for which the Owner-Occupant qualifies.
Affordable to the Local Work Force	The amount of housing payments made by the occupants of housing funded under the Challenge program is affordable based on the wages of jobs being created or retained in the local area, the fastest growing jobs in the local area, the jobs with the most openings in the local area, or the wages of the workforce employed by organizations making contributions under the Challenge program. Housing payments are affordable if they do not exceed 30% of the wages being paid in the local area as the wages are described in the application for Challenge program funding.
American Indian Household	A Household that includes at least one household member who is enrolled in a federally recognized tribe.
Annualized Gross Income	Gross monthly income multiplied by 12. (See Chapter 2 of this Procedural Manual.)

TERM	DEFINITION
Application for Funds	The application for funds prepared by an Administrator and submitted in response to the Single Family RFP as accepted in writing or electronically by Minnesota Housing including any conditions, restrictions or limitations contained in the Fund Availability, Disbursement and Loan/Grant Agreement.
Borrower	A type of Household that is eligible to use Impact Fund Dollars in the rehabilitation of a Qualified Dwelling Unit in which there is an ownership interest by the Household or as Affordability Gap Financing to facilitate the purchase of a Qualified Dwelling Unit.
Co-Signer	Any one obligated to repay the underlying mortgage loan (signer of the mortgage note) but who is not in title to the subject property and has not signed the mortgage deed.
Community Land Trust (CLT)	A private, non-profit organization that is designated a Section 501 (c) (3) tax-exempt organization and that is authorized to acquire land to be leased for owner-occupied single family housing for low-and-moderate-income persons or families and that meets the criteria set forth in Chapter 3 of this Procedural Manual.
Deferred Loan	A non-amortizing zero percent or low-interest loan from Minnesota Housing to the Administrator which in turn is lent by the Administrator to an Owner-Occupant to provide Affordability Gap financing or rehabilitation or other improvements to Qualified Dwelling Units which must be repaid to the extent provided in the Agreement and Chapter 6 of this Procedural Manual, be processed and closed by the Administrator and be assigned and transferred to Minnesota Housing.

TERM	DEFINITION
Fair Market Sales Price	The market value of a property as determined in an appraisal by a qualified appraiser.
Fund Availability, Disbursement and Loan/Grant Agreement	The legal contract executed between Minnesota Housing and an Administrator that includes a cover letter and that may be amended or supplemented in writing according to its terms. This "Agreement" articulates funds awarded to an Administrator pursuant to Impact Fund and/or Indian Housing Set-aside funds to complete Eligible Activities.
Grant	Funds awarded by Minnesota Housing to an Administrator under the Agreement generally not requiring repayment and for use by the Administrator in accordance with this Procedural Manual.
Homebuyer	A type of Household that benefits from the use of an Impact Fund award in the new construction or the acquisition, rehabilitation and resale of a Qualified Dwelling Unit and/or for Affordability Gap financing to acquire a Qualified Dwelling Unit.
Homeowner	A type of Household eligible to use Impact Fund Dollars for the rehabilitation of a Qualified Dwelling Unit in which the Household has an ownership interest.
Household	A Homebuyer or Homeowner who meets Impact Fund Program guidelines and is eligible to receive Impact Fund Dollars from an Administrator.
Housing Ratio	The portion of Household Annualized Gross Income necessary to pay the Borrowers' monthly housing expense expressed as a percentage of monthly gross income.
Impact Fund Agreement Identification (ID) Number	The unique identifier assigned to an Administrator's award and listed on the Fund Availability, Disbursement and Loan/Grant Agreement which must be used on all forms and correspondence with Minnesota Housing.
Impact Fund Application for Funds	An Administrator's request for Impact Fund Dollars prepared in response to Minnesota Housing's Single Family RFP.

TERM	DEFINITION
Impact Fund Dollars	The aggregate funds identified in Section 2.01 of the Agreement that Minnesota Housing will reserve and make available to the Administrator for eligible activities under the Agreement.
Indian Housing Set-Aside Funds	A set-aside funding source that is awarded by the Impact Fund to a specific Administrator to exclusively serve American Indian Households by conducting eligible activities under the Agreement and pursuant to this Procedural Manual.
Interim Loan	A short-term, non-or-low-interest bearing loan made to an Administrator to assist with acquiring, demolishing, rehabilitating or constructing owner-occupied housing
Land	The real property upon which Qualified Dwelling Units are located or to be constructed.
Level 3 Monitoring Exception	A monitoring finding that is a critical exception and requires a response by the Administrator. Level 3 findings are usually violations of published program guidelines and may significantly increase the overall risk to the program/project. A Level 3 finding is the only type of monitoring exception that requires a response.
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.
Low Income Households	Households whose Annualized Gross Income is less than or equal to 80% of state or area median income (AMI). Income limits are listed on Minnesota Housing's website.
Low and Moderate Income Households	Households whose Annualized Gross Income is less than or equal to 115% of state or area median income (AMI). Income limits are listed on Minnesota Housing's website.

TERM	DEFINITION
Owner-Occupant	A Homeowner or Household whose income does not exceed 115% of state or area median income (AMI) as adjusted from time to time by the US Department of Housing and Urban Development and as listed on Minnesota Housing's website. An Owner-Occupant must own the Qualified Dwelling Unit and use it as their Principal Residence.
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.
Principal Residence	The property which the Homebuyer regularly occupies as their main dwelling place for at least nine months of the year.
Processing Entity	A Minnesota Housing approved lender who partners with an Administrator to process Impact Fund awards that is required when federal or state laws or acts or Administrator capacity prohibit an Administrator from directly administering Impact Fund Dollars.
Procedural Manual	This Community Homeownership Impact Fund Program Procedural Manual
Project	The real estate and the Qualified Dwelling Unit(s) situated thereon.
Public Housing Agency	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.
Qualified Dwelling Unit	A structure consisting of one-to-four units, a condominium or a townhouse which will be occupied by the owner as his or her Principal Residence and which is located on or will be constructed on Land and are part of a Project.
Single Family Request for Proposal (RFP)	The process by which the Single Family Division of Minnesota Housing solicits Administrator Applications for Funding under the Impact Fund Program.

TERM	DEFINITION
Scope of Work	A detailed outline of the necessary rehabilitation work to be completed on the Project.
Sworn Construction Statement	A sworn statement of fact made by a general contractor that lists all of the work to be performed on a Qualified Dwelling Unit, 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.
Underserved Populations	Households of color or Hispanic ethnicity; single, heads of Households with minor children; and Households with a disabled member(s).
Value Gap	Financing to assist the Administrator to fund the difference between the Fair Market Sales Price and the total development cost of a Qualified Dwelling Unit. Value Gap assistance is available in the form of a Grant to bridge the cost of property acquisition and improvement or construction of a Qualified Dwelling Unit and the appraised value of that unit.

Appendix B: Forms List

Household Demographic Project Information Form
Impact Fund Mortgage
Impact Fund Mortgage Note
Request for Funds
Impact Fund Annual Report/Final Close Out Report
Non-Occupant Spouse Statement
Zero Income Statement
Extension Request

Appendix C: Required Program Documentation

A. ADMINISTRATOR FILE

	Annual/Progress Reports (if applicable)
	The Agreement
	Evidence of Minnesota Housing staff approval of Program-, Household-and/or-Property–specific Waiver(s), as applicable.
	Request for Funds
	Administrator insurance certificate(s) - Commercial General Liability and Worker's Compensation, at statutory coverages.
	Other Correspondence (if applicable)

B. HOUSEHOLD/BORROWER FILE

Household Last Name | First Name | Middle Initial

Property Address | City | Impact Fund Award Number

	Verification of American Indian tribal affiliation/membership (if applicable)
	Appraisal or Equivalent, at the time of sale to the Homebuyer (not required for owner occupied rehab)
	Assignment of Mortgage to MHFA (if applicable)
	Impact Fund Mortgage and Mortgage Note (for Affordability Gap-financed houses and Borrowers receiving Owner-Occupied rehabilitation Deferred Loans)
	Mortgage Note for underlying first mortgage of Homeowner in cases of an occupying Co-Signer (not required for Owner-Occupied rehabilitation)
	Documented method to determine Affordability Gap
	Lender/Owner's Title Insurance Policy (if purchased) or Attorney's Title Opinion
	Evidence of Tennessen and data privacy disclosure
	Household Demographic/Project Information Form
	Income Verification, including but not limited to two years of federal income tax returns and one month of recent paystubs
	Non-Occupant Spouse Statement (if applicable)
	Zero Income Statement (if applicable)
	Annualized Gross Income Worksheet (optional)
	Proof of ownership – copy of Deed, Certificate of Title or approved equivalent

	Purchase Agreement (if applicable)
	Purchase Agreement (if applicable)
	Settlement statement or closing document (HUD-1)
	Land Lease Agreement (if applicable)

C. CONSTRUCTION/PROPERTY FILE

1	**New Construction and Acquisition/Rehabilitation/Resale**
	Building Permits
	Certificate of Occupancy or Certificate of Completion
	Evidence of clear predevelopment title – Title Insurance (if applicable)
	Evidence of using State licensed contractor
	Final Project Budget/Cost Summary (including documented method to determine Value Gap
	Scope of Work – Rehab
	Bids, Cost Estimates for Improvements or a Cost Study
	Site and Building Plans and Specifications (New Construction)
	Survey (New Construction)
	Sworn Construction statement and corresponding lien waivers (or approved equivalent)
	Evidence of Foreclosed or Abandoned Property, as required by the Agreement (If using bond proceeds, see Section 6.10 for specific requirements)
	Housing Infrastructure Bond Proceeds Certificate, (evidence of expenditure of deferred loan), if applicable (See Section 6.10 for details)

2	**Green Compliance**
	All of the following documents must be collected for homes financed with awards after 2013. For older awards, pay special attention to which documents are required using the award date.
	October 2008-Present (New Construction) **2009-Present (Acquisition/Rehabilitation/Resale)**
	Pre-construction, post board approval: Intended Methods form or Enterprise Prebuild Approval Notification
	Post-construction: Compliance Report or Green Communities Certification
	Green Compliance Waivers (if applicable)
	Required for Post 2011 Awards
	Pre-construction:
	Acquisition/Rehabilitation: Energy Audit and Energy Efficiency

	Improvement Plan
	Substantial Rehabilitation: HERS Rating Report or Blower Door Test Report
	New Construction: Energy Model Energy Star for Homes
	Post Construction:
	Acquisition/Rehabilitation: Blower Door Test Report
	New Construction and Substantial Rehabilitation: Home Energy Rating Certificate
	Rehabilitated Homes Built Prior to 1978: Lead Based Paint Summary and Clearance Report
	Radon Testing Report
	Required for Post 2013 Awards
	Pre-construction: Impact Fund Application Checklist, Minnesota Overlay to the 2011 Enterprise Green Communities Criteria

This document is subject to change. Affordability Gap programs (without any construction or rehabilitation) in the unit and owner-occupied rehabilitation programs are currently exempt from green compliance.

3	Affordability Gap – Where Construction/Rehabilitation is occurring
	Building Permits (if applicable)
	Certificate of Occupancy or Certificate of Completion
	Evidence of clear pre-development title – Title Insurance (if applicable)
	Evidence of using State licensed contractor (if applicable)
	Final Project Budget/Cost Summary
	Scope of Work (Rehabilitation)
	Bids, Cost Estimates for Improvements or a Cost Study
	Site and Building Plans and Specifications (New Construction)
	Sworn Construction Statement and corresponding lien waivers (or approved equivalent)
	Intended Methods Form and Compliance Report or Enterprise Prebuild Approval Notification and Enterprise Green Communities Certification.

Owner Occupied Rehab

	Subject Property Address
	Building Permits
	Certificate of Completion
	Evidence of using State licensed contractor
	Final Project Budget/Cost Summary
	Scope of Work – Rehab
	Bids, Cost Estimates for Improvements or a Cost Study

	Evidence of using State Licensed Contractor

Manufactured Housing

	Building Permits (utility hook-ups, etc.)
	Certificate of Occupancy
	Documented method to determine Value Gap (if applicable)
	Evidence of using State licensed contractor/installer
	Bids, Cost Estimates for Improvements or a Cost Study
	Final Project Budget/Cost Summary
	Scope of Work – Rehab

Administrators using Indian Set-aside Funds should contact Minnesota Housing to determine the acceptability of additional documents equivalent to those provided in the lists above.

AGENDA ITEM: 7.D.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Housing Trust Fund (HTF) Rental Assistance for Hennepin County Young Families Pilot

CONTACT: Elaine Vollbrecht 651-296-9953
elaine.vollbrecht@state.mn.us

REQUEST:

☑ Approval ☑ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests the adoption of the attached Resolution authorizing $250,000 from the Housing Trust Fund (HTF) to be administered through the HTF Rental Assistance program for the Hennepin County Young Families Pilot.

FISCAL IMPACT:
The requested funds are state appropriations which were appropriated for the HTF during the 2013 Legislative session. The appropriation is an increase to the HTF base budget, and the request is for a partial commitment of these funds.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND:

Hennepin County Young Families Pilot

The number of families seeking emergency shelter in Hennepin County has grown steadily since 2006. In 2012, there were 1,453 families served in county contracted shelters and of those, 350 had been in a shelter in the past three years. In October 2012, Hennepin County's Human Services and Public Health Department approved the Stable Families initiative. This initiative examined the drivers of family shelter in Hennepin County and identified families not well served by the current system. Young families with young children represent half of the repeat shelter users and are at higher risk of becoming chronically homeless.

Hennepin County has requested $250,000 to provide rental assistance funding for the Young Families Pilot, as part of the Stable Families Initiative.

Eligible families will be those with parents age 25 and under, who come to shelter for the second time in three years. They will be referred to a two-year supportive housing program where they will receive affordable housing, parenting support, and developmentally appropriate case management services.

Service funding is provided by Family Homeless Prevention and Assistance Program funds and philanthropic organizations and is administered by the Family Housing Fund. Simpson Housing Services, St. Stephens Human Services and The Link will provide the services for this pilot project.

HOME federal rental assistance is secured and is expected to serve up to 20 families in suburban Hennepin County. The requested HTF rental assistance would serve approximately 17 additional families in Minneapolis. A decreasing capped subsidy will be provided for rental subsidies funded with either funding source.

Services and housing assistance will be provided for a maximum of twenty-four months.

Anticipated outcomes are reduction in overall demand and utilization of shelters in Hennepin County, and include the following predicted outcomes for families: increased housing stability, increased readiness for kindergarten (for those applicable) and school attendance, connection with a health care home clinic, educational attainment of the parent, and increased income.

Hennepin County is working with Minnesota Evaluation Studies Institute (MESI) to evaluate the Stable Families Initiative.

If approved, funding with HTF rental assistance will be effective July 1, 2014.

Funding Recommendation

Staff recommends funding this proposal, to provide rental assistance funding for the Young Families Pilot in Hennepin County.

Supportive Housing staff anticipates offering additional funds from the HTF base budget increase through two additional rental assistance pilots. The first is similar in focus to the Young Families Pilot, to be offered statewide outside of Hennepin County. The second is for a metro area pilot to provide rental assistance resources to move people from site based supportive housing into scattered site housing in order to open up site based supportive housing units to people in need of the level of services provided at the site.

Staff will also bring a recommendation to utilize a portion of the HTF base budget increase funds as a stabilization bridge fund to be administered by the Stewardship Council.

When timing is appropriate, staff will bring these funding recommendations to the Minnesota Housing Board of Directors for approval.

Board Agenda Item: 7.D.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING SELECTION/AUTHORIZATION TO FUND HOUSING TRUST FUND (HTF) RENTAL ASSISTANCE GRANT

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received a request to provide funds for a short-term rental assistance programs for young families with children; and

WHEREAS, the Agency staff has reviewed the request and determined that it is in compliance under the Agency's rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into a grant agreement using State resources and in compliance with applicable statutes and regulations as set forth, subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

1. The Agency staff shall review and approve the following Grantee the total recommended amount for thirty months:

Hennepin County	D4067	$250,000

2. The issuance of a grant agreement in form and substance acceptable to the Agency staff and the closing of the grant shall occur no later than six months from the adoption date of this Resolution.

3. The sponsor and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 24th day of April, 2014.

____
CHAIRMAN

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Minnesota Housing
Finance Agency

AGENDA ITEM: 7.E.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Amendment to the 2014 Affordable Housing Plan (AHP): Low and Moderate Rental Income (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs

CONTACT: Susan Thompson, 651-296-9838
susan.thompson@state.mn.us

REQUEST:

☑ Approval ☑ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:

When the Board approved the 2014 AHP in September 2013, staff based its recommendation for the LMIR and FFCC program funding on anticipated applications for the 2013 RFP and previous production trends. Since September, the Agency has received higher than expected pipeline requests for these funds.

FISCAL IMPACT:

The following table shows the additional funds that the Agency would make available under the 2014 AHP.

Program	Original AHP Allocations	Revised AHP Allocations	Increase	Funding Source
LMIR	$ 10,000,000*	$ 21,000,000	$ 11,000,000	Housing Investment Fund (Pool 2)
FFCC	$ 4,500,000	$ 5,300,000	$ 800,000	Housing Affordability Fund (Pool 3)

*Total LMIR funding in the AHP of $30,000,000 included $20,000,000 funded by Agency bond proceeds.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Summary of Recommended Amendments

SUMMARY OF RECOMMENDED AMENDMENTS

The Low and Moderate Income Rental Program (LMIR) makes interest-bearing, amortizing first mortgages available for the refinance, acquisition, rehabilitation or new construction/conversion of rental developments that house low- and moderate-income Minnesotans. In addition, deferred loans under the Flexible Financing for Capital Costs (FFCC) program are available in conjunction with LMIR loans. Financing is available to housing sponsors both through the Request for Proposals (RFP) process and on an open pipeline basis.

Additional funding authority under the AHP is being requested at this time to allow the Agency to process pending transactions in excess of the current AHP authority. During the 2013 RFP, developments were selected for LMIR and FFCC loans exceeding the 2014 AHP allocation. Total LMIR loans in process are $2,080,340 and FFCC awards are $35,397 above the 2014 AHP allocation. Two pipeline applications are currently pending with anticipated LMIR loans of $9 million and FFCC loans of $800,000.

Minnesota Housing Finance Agency

AGENDA ITEM: 7.F.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Northpoint Townhomes, Aitkin (D0005)

CONTACT: John Rocker, 651-284-0078
john.rocker@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Subject to completion of underwriting and technical review of the proposed development, Agency staff recommends the selection of the development for processing and the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $870,000, subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2014 amended Affordable Housing Plan (AHP), the Board allocated $51 million in new activity for the LMIR program which includes $21 million from the Housing Investment Fund (Pool 2) and $30 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. Funding for this loan falls within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate $45,400 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Development Summary
- Resolution

BACKGROUND:

Northpoint Townhomes was selected by Minnesota Housing in November 2013 for $327,953 in annual tax credits and subsequently awarded an additional $20,167 in tax credits in the supplemental round (subject to Board approval). With the LMIR first mortgage, this project will be fully funded and ready to start construction in the second quarter of 2014.

Board Agenda Item:7.F.
Attachment: Development Summary

DEVELOPMENT SUMMARY

DEVELOPMENT:

					D0005
Name:	Northpoint Townhomes			App#:	M16702
Address:	610 Air Park Drive				
City:	Aitkin	County:	Aitkin	Region:	NEMIF

MORTGAGOR:

Ownership Entity:	CB Northpoint Townhomes LP
General Partner/Principals:	CB Northpoint Townhomes LLC

DEVELOPMENT TEAM:

General Contractor:	Frerichs Construction Company, Vadnais Heights
Architect:	Cermak Rhoades Architects, Saint Paul
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	CommonBond Housing, Saint Paul
Service Provider:	CommonBond Communities, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$870,000	LMIR First Mortgage	
	Funding Source:	Housing Investment Fund (Pool 2)
	Interest Rate:	5.25%
	MIP Rate:	0.25%
	Term (Years):	30
	Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
2BR	21	880	$ 806	$ 834	$ 32,240
2BR	1	830	$ 803	$ 834	$ 32,120
3BR	10	1,061	$ 878	$ 999	$ 35,120
TOTAL	**32**				

*NOTE: All 32 units receive project-based Section 8 rental assistance ensuring tenants will pay no more than 30% of their income towards housing.

Purpose:
The proposed development involves the acquisition and rehabilitation of Northpoint Townhomes (formally Ripple River Townhomes) in the City of Aitkin. Northpoint is an existing 32-unit Section 8 development that will be renovated by CommonBond Communities. This development provides large family housing and housing for persons experiencing long-term homelessness (LTH). The unit mix includes 22 two-bedroom units and 10 three-bedroom units. CommonBond recently entered into a new 20-year HAP contract on this property. The proposed financing will address needed physical improvements and the addition of a community center to stabilize the development for the term of the mortgage.

Target Population:
The targeted population includes families with children, households of color and single-head of households. Four units will target households experiencing long-term homelessness (LTH). All of the units will be income- and rent-restricted at 60% of Area Median Income (AMI), which means eligible households could earn up to $30,000 or $40,000 depending on household size. However, all 32 units have project-based rental assistance and the actual tenants are likely to have incomes well below the allowable tax credit eligibility requirements.

Project Feasibility:
The development is feasible as proposed. CommonBond purchased this property in 2012 and is now proposing to refinance and rehabilitate the development as a 9% tax credit project. Wells Fargo will be the limited partner and is contributing $3,272,238 in tax credit equity. CommonBond has committed $625,415 to the project in the form of a seller note, $285,415 in a rehab reserve account, and $161,348 in deferred developer fees. Greater Minnesota Housing Fund (GMHF) has committed $230,000 in deferred funding at 1% interest and the new ownership will assume the existing PARIF loan in the amount of $350,000 at 0%.

Development Team Capacity:
CommonBond Communities, the Midwest's largest nonprofit provider of affordable housing with services, has served the region for over 40 years. It owns or manages over 5,400 affordable rental apartments and townhomes throughout 50 cities in Minnesota, Wisconsin and Iowa, including more than 2,100 children.

Physical and Technical Review:
This is a moderate rehab of an existing townhouse development. The rehabilitation will address needed physical conditions which, along with the new financing should stabilize the development for the long term.

Market Feasibility:
While the subject is currently 93.8% occupied due to recent turnovers, the property has a waiting list and will continue to benefit from the Section 8 rental assistance allowing tenants to pay no more than 30 percent of their income towards rent. The market study concluded that the renovation of the property is feasible within this market and will have a positive impact upon the community.

Supportive Housing:
CommonBond plans to set up an Advantage Center at the development. CommonBond has been operating Advantage Services for 20 years. The CommonBond Advantage Center will provide case management, individual and family supports, financial management/budgeting, independent living skills, education, employment training services, parenting training, and similar supports. Other services, such as mental and chemical health will be provided by outside entities, such as the county. Referrals for the LTH units come from Advocates Against Domestic Violence, Lakes and Pines Community Action, Salvation Army and emergency shelter providers in the region. Services will be paid from Advantage Center fees and fundraising.

Board Agenda Item:7.F.
Attachment: Development Summary

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$5,851,506		$182,860
Acquisition or Refinance Cost	$1,785,415		$55,794
Gross Construction Cost	$2,314,100		$72,316
Soft Costs (excluding Reserves)	$1,387,453		$43,358
Non-Mortgageable Costs excluding Reserves Reserves	$364,538		$11,392
Total LMIR Mortgage	$870,000		$27,188
First Mortgage Loan-to-Cost Ratio		14.9%	
Agency Deferred Loan Sources			
Assumption of existing PARIF	$350,000		$10,938
Total Agency Sources	$1,220,000		$38,125
Total Loan-to-Cost Ratio		20.8%	
Other Non-Agency Sources			
Syndication Proceeds (Wells Fargo)	$3,272,328		$102,260
Seller Loan	$625,415		$19,544
Greater Minnesota Housing Fund	$230,000		$7,188
Purchased Reserves	$285,415		$8,919
Deferred Developer Fee	$161,348		$5,042
Sales Tax Rebates	$27,000		$844
NOI during construction	$30,000		$938

Board Agenda Item: 7.F.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Northpoint Townhomes
Sponsors:	CommonBond Communities
Guarantors:	CommonBond Communities
Location of Development:	Aitkin
Number of Units:	32
General Contractor:	Frerichs Construction Company, St. Paul
Architect:	Cermak Rhodes, St. Paul
Amount of Development Cost:	$5,851,506
Amount of Low and Moderate Income Rental (LMIR) Mortgage:	$870,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2) under the LMIR Program for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $870,000; and

2. The End Loan Commitment shall be entered into on or before October 31, 2014 and shall have an 18 month term (which shall also be the LMIR Commitment Expiration Date); and

3. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and

4. The term of the permanent LMIR loan shall be 30 years; and

5. Agency staff shall review and approve the Mortgagor; and

6. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

7. CommonBond Communities (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

8. CommonBond Communities (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's payment under LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

9. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 24th day of April 2014.

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CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 7.G.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Hickory Ridge Townhomes, Maple Grove, D0753

CONTACT: Leslee Post, 651-296-8277
leslee.post@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff recommends the adoption of a resolution authorizing the issuance of a Financing Adjustment Factor (FAF) loan commitment in the amount of $746,520 subject to the terms and conditions of the Agency loan commitment.

FISCAL IMPACT:
The amount requested by the owner is equal to the total amount of accrued FAF savings and 02DS savings directly attributable to Hickory Ridge Townhomes. This loan is permitted under the approved budget for the Financing Adjustment Factor (FAF)/Financing Adjustment (FA) program in the 2014 Affordable Housing Plan.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND:
Hickory Ridge Townhomes is a 32 unit, 100% Section 8 family development located in Maple Grove in northwestern Hennepin County. The development was financed with an Agency Section 8 first mortgage that was scheduled to mature March 1, 2015 but was pre-paid in December, 2013 as part of an acquisition by Twin City Housing Development Corporation (TCHDC).

The property has substantial capital needs which will be addressed with the proposed Financing Adjustment Factor (FAF) loan in conjunction with other funding sources including $60,000 of CDBG funds that have been committed by the City of Maple Grove. The developer has submitted an application to Hennepin County for HOME funds and will be submitting an application for tax credits and first mortgage financing in the 2014 Request for Proposals (RFP). The Hennepin County awards will be made public in May, 2014.

Agency staff has been working with TCHDC for nearly a year on a plan that will address physical condition, stabilize operations and preserve the federal subsidies for the long term. Hickory Ridge has been on the Interagency Stabilization Group (ISG) agenda for over 5 years; this development has been a high priority for the Agency and its partners due to physical condition, an active resident group and involvement of tenant advocacy groups.

Agency staff worked with the previous owner to help develop a plan for the needed, substantial rehab using FAF and other funds; sale of the property and acquisition by TCHDC was strongly encouraged and supported by the Agency and the ISG. As a top priority, Hickory Ridge has been in first position for use of FAF funds; FAF funds cannot be requested through the RFP therefore must be requested outside of that process.

Staff is proposing to structure the forgivable FAF loan similar to our Housing Infrastructure Bond (HIB) indirect loans. The HIB forgivable pass-through loans are made to nonprofits and are structured as non-recourse, with the non-profit then lending the funds to the ownership entity as a repayable loan. The forgivable loan to the nonprofit (e.g., TCHDC) is made for the same term as the repayable loan from the nonprofit to the property owner. The interest rate on both loans is 0% (unless the borrower requests a higher rate for tax credit purposes).

This proposal is supported by the ISG with funding being strategically targeted by the Agency as well as the City of Maple Grove and Hennepin County, to preserve the Section 8 in a community that has historically opposed construction of additional affordable housing units.

In exchange for the FAF commitment, TCHDC will commit to keeping Hickory Ridge in the Section 8 program for 30 years beyond expiration of the current HAP contract; an additional 30 year commitment to the Section 8 program will provide a 6:1 return on the Agency's investment of $746,520, leveraging a present value of $4,646,079 in federal subsidies.

Board Agenda Item: 7.G.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING ASSET MANAGEMENT LOAN

WHEREAS, the development known as Hickory Ridge Townhomes in Maple Grove, Minnesota, MHFA Development No. 0753 (The Development) is in need of repairs and improvements; and

WHEREAS, the owner has requested assistance from Minnesota Housing with funding for capital improvements; and

WHEREAS, the owner and staff propose to provide funding for the costs of said improvements based upon the following terms:

1. Minnesota Housing will provide an Asset Management Loan (AML) to Twin City Housing Development Corporation (TCHDC) in the amount of $746,520. This amount reflects $544,380 in FAF savings and $202,140 in 02DS savings directly attributable to Hickory Ridge Townhomes. The AML will be funded from the Agency's FA/FAF pool; and

2. TCHDC will provide a repayable loan to the owner at terms and conditions approved by Minnesota Housing; and

3. The AML will be coterminous with any new first mortgage financing; the loan balance will be deferred at zero percent until maturity of the first mortgage at which time it will be forgiven; and

4. The owner will agree to keep the development in the Section 8 program or other Housing Assistance program until the later of maturity of the first mortgage or March 1, 2045; and

5. The AML may be paid in full at any time without penalty; and

6. This commitment will be effective for a period of 24 months to allow for application of additional funding. Closing must occur by May 1, 2016.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon the agency staff obtaining a commitment by the owner to keep the development in the Section 8 program or other Housing Assistance program until the date reflected above, the Agency will provide an Asset Management Loan in the amount of $746,520 on the above described terms and conditions.

Adopted this 24th day of April, 2014.

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CHAIRMAN

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AGENDA ITEM: 7.H.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Glenwood Manor, Glenwood, D0579

CONTACT: Leslee Post, 651-296-8277
leslee.post@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff recommends the adoption of a resolution authorizing the issuance of a Financing Adjustment (FA) loan commitment in the amount of $233,373 subject to the terms and conditions of the Agency loan commitment.

FISCAL IMPACT:
The amount requested by the owner is equal to the amount of accrued FA savings directly attributable to Glenwood Manor. This loan is permitted under the approved budget for the Financing Adjustment Factor (FAF)/Financing Adjustment (FA) program in the 2014 Affordable Housing Plan.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND:
Glenwood Manor is a 36 unit, 100% Section 8 family development located in the central Minnesota community of Glenwood. The development was financed with an Agency Section 8 first mortgage which matured January 1, 2012. There is currently no debt on the property.

The property has substantial capital needs which will be addressed with the proposed Financing Adjustment (FA) loan as well as a $300,000 Rental Rehabilitation Deferred Loan (RRDL), owner cash and $1,194,000 in construction/first mortgage financing from Greater Minnesota Housing Fund (GMHF).

Previously, the limited partners were not interested in extending the commitment to the Section 8 program which is a required condition of receiving FA funds. The proposed transaction includes transfer of ownership to a new entity and will result in the long term preservation of the Section 8 contract.

GMHF is providing construction financing which will fund the acquisition and a portion of the rehab; the construction loan will convert to permanent financing at the end of the construction period; GMHF's first mortgage will restrict incomes to 80% of statewide median.

In exchange for the new financing, the new owner will commit to keeping Glenwood Manor in the Section 8 program for 25 years beyond expiration of the current HAP contract; a 25 year commitment to the Section 8 program provides a 7:1 return on the Agency's combined (RRDL & FA) investment of $533,373, leveraging a present value of $3,770,650 in federal subsidies.

Board Agenda Item: 7.H.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING ASSET MANAGEMENT LOAN

WHEREAS, the development known as Glenwood Manor in Glenwood, Minnesota, MHFA Development No. 0579 (Development) is in need of repairs and improvements; and

WHEREAS, the owner has requested assistance from Minnesota Housing with funding for capital improvements; and

WHEREAS, the owner and agency staff propose to provide funding for the costs of said improvements based upon the following terms:

1. Minnesota Housing will provide an Asset Management Loan (AML) to the Development in the amount of $233,373. This amount reflects the total FA savings directly attributable to Glenwood Manor. The AML will be funded from the Agency's FA/FAF pool; and

2. The loan balance will be deferred at zero percent until January 1, 2035, at which time it will be forgiven; and

3. The owner will agree to keep the Development in the Section 8 Program or other Housing Assistance program until January 1, 2040; and

4. The AML may be paid in full at any time without penalty; and

5. The AML must be closed on or before October 31, 2014.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon agency staff obtaining a commitment by the owner to keep the development in the Section 8 Program or other Housing Assistance program for an additional 25 years beyond expiration of the current HAP contract, the Agency will provide an Asset Management Loan in the amount of $233,373 on the above described terms and conditions.

Adopted this 24th day of April, 2014.

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CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 7.I.
MINNESOTA HOUSING BOARD MEETING
April, 24, 2014

ITEM: Housing Tax Credit (HTC) Program - 2014 Round 2 Selections and Waiting List

CONTACT: Bob Porter, 651-297-5142
Robert.porter@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Approval of a request for waiver pursuant to Article 8.0 of the Qualified Allocation Plan (QAP) and Chapter 3.E of the 2014 HTC Procedural Manual to allow the allocation of tax credits in an amount greater than $1,000,000 for the Hillside Apartments, Duluth development.

Adoption of the attached Resolution authorizing the selections and reservation/increased reservation of housing tax credits for Round 2 of the 2014 Housing Tax Credit Program year and as credits become available, and subject to final reviews, the projects on the Waiting List indicated on Attachment: HTC Round 2**.**

FISCAL IMPACT:
Housing Tax Credits are a federal resource and therefore do not adversely impact the Agency's financial condition.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Predictive Model Cost Rationale
- HTC 2014 Round 2
- Resolution

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BACKGROUND:
Minnesota Housing received applications for the final 2014 HTC application round (Round 2) on January 28, 2014. In Round 2, applications are selected without regard to geographic distribution. Projects that have previously received tax credits and have a shortfall of at least 5 percent, but not more than 33.33 percent, of the total qualified annual tax credit amount have priority over other applications.

The total credit availability for the 2014 HTC program is currently $12,466,874 based upon $2.30 per capita and adjustments for updated population numbers. In the 2014 HTC Round 1 (Round 1), a total of $11,834,145 in credits, as adjusted, was allocated against a total Round 1 credit availability of $12,103,062. A total of $417,010, as detailed below, is currently available for Round 2.

2014 Round 1 remaining balance, as adjusted	$268,917
Increase due to update of population.	$94,855
Returned credits	$53,238
National Pool (estimated)	Not Yet Released by IRS
2014 Current Balance (available to Round 2)	$417,010

In May, the Agency will apply for tax credits from the National Pool. Due to per capita and state allocation variables, it is not possible to estimate the credits that may be available from the National Pool at this time. The Agency may also allocate all unused and/or returned credits from previously allocated projects returned to the Agency prior to October 1, 2014 in accordance with the requirements of Section 42.

The Agency received 6 applications requesting a total of $1,239,112 of Round 2 tax credits. One of these applicants, Ebenezer Towers, as approved by the Board on March 27, 2014, elected to use additional Minnesota Housing HOME funds which were available in lieu of tax credits and subsequently withdrew their application to the round. Of the remaining 5 applications, four had previously received awards of tax credits either from Minnesota Housing or from one of the sub-allocators. Three of these qualified for the Round 2 supplemental request priority. Of the remaining two, one was previously awarded credits by a Suballocator and does not qualify for the supplemental request priority and one is a new request application.

All applications were ranked in accordance with the selection criteria outlined in the 2014 HTC Qualified Allocation Plan (QAP). In accordance with the 2014 QAP, the three supplemental applications were reviewed on a priority basis. A total of $305,170 in tax credits is recommended for the three supplemental applications. An amount of $25,000 in additional tax credits is recommended for the highest competitive non-supplemental priority application. The proposed Round 2 housing credit awards will leave a credit balance of approximately $86,840 which is insufficient to substantially fund any remaining proposal. This amount, plus any returned credits and/or National Pool credits will be evaluated for use with proposals which are placed on the 2014 Waiting List. The proposal recommended for placement on the Waiting List has received preliminary review and is subject to final reviews should sufficient credits become available to substantially fund another project.

Staff's recommendations for 2014 Round 2 tax credit selections and the 2014 Waiting List are summarized on Attachment: HTC 2014 Round 2**.**

WAIVER OF DEVELOPMENT CREDIT ALLOCATION LIMITS:
Article 8.0 of the 2014 QAP states that no developer or general partner may receive tax credits in excess of 10 percent of the state's per capita volume in any calendar year and no individual development may

receive credits in excess of $1,000,000. This limitation is subject to review and waiver by the Agency Board. Chapter 3.E. of the 2014 HTC Procedural Manual also states that, at the sole discretion of the Agency, these limits may be waived for projects that involve community revitalization, historic preservation, preservation of existing federally assisted housing, housing with rents affordable to households at or below 30 percent of median income, in response to significant proposed expansions in area employment or natural disaster recovery efforts.

At its October 25, 2012 meeting the Board approved a waiver request of $6,151 to the $1,000,000 per development cap for the Hillside Apartments, Duluth, approving a total credit award of $1,006,151. The effects of inflation and other cost increases since the 2012 approvals have increased total development costs of the project. The waiver will allow the applicant to maximize the amount of equity available to fund development costs and to balance the development budget. Staff is recommending an additional $185,849 waiver to allow for an aggregate credit amount of $1,192,000 for the Hillside Apartments development submitted by One Roof Community Housing and Center City Housing Corporation.

Hillside Apartments

This 50 unit development requesting tax credits is part of the City of Duluth's Consolidated Plan for Housing and Community Development that provides for community revitalization. The development also includes 22 units serving long term homeless households. In addition, 44 of the units will have the benefit of project-based Section 8 assistance, and through the~~i~~se rents will be affordable to households at or below 30 percent of area median income.

MINNESOTA HOUSING MULTIFAMILY COST PER UNIT ANALYSIS:

Staff analyzes all proposals on a total and per unit cost basis using a Predictive Cost Model developed by Minnesota Housing research staff as one way to identify proposals having costs higher than might be expected. Agency staff works with applicants to understand and mitigate high costs. In 2007 the board requested that staff provide rationale for all high cost recommended proposals that exceed the predictive model estimate by greater than 25%. Attachment: Predictive Model Cost Rationale includes discussion of all developments where costs are more than 25% higher than the predictive model estimates. Among proposals received during HTC 2014 Round 2, staff is recommending credit awards for two developments that exceed the Predictive Model by more than 25 percent; Hillside Apartments, Duluth, and PPL DECC Recapitalization, Minneapolis.

PREDICTIVE MODEL RATIONALE:

Hill Side Apartments, Duluth   D6723/M16705
50 Units
New Construction
Predictive Model Amount: $203,504 (per unit)
RFP Funding Award: N/A, HTC Only   RFP Award Amount /Unit: N/A, HTC Only

TDC	*TDC Per Unit*	*Predictive Model Amount Plus 25%*	*TDC Per Unit Amount Exceeding the "Predictive Model Plus 25%" Amount.*	*TDC Per Unit Amount as Percentage of Predictive Model*
$12,844,499	$256,890	$254,380	$2,510	126.2%

*Total Development Cost (TDC)

The proposed TDC per unit is 26.23% above the 2012 predictive model estimate. Costs are just slightly above the 25% threshold due to increased cost for winter conditions, additional environmental remediation costs, soil conditions and overall increase in construction costs.

PPL DECC Recapitalization   D7591/M16706
51 Units
Acquisition, Rehabilitation
Predictive Model Amount: $166,500 (per unit)
RFP Funding Award: $1,200,000   RFP Award Amount /Unit: $23,529

TDC	*TDC Per Unit*	*Predictive Model Amount Plus 25%*	*TDC Per Unit Amount Exceeding the "Predictive Model Plus 25%" Amount.*	*TDC Per Unit Amount as Percentage of Predictive Model*
$10,701,860	$209,840	$208,125	$1,715	126.0%

The project's TDC is 26.03% over the predictive cost model. As a scattered site development in nine separate buildings, in this case the predictive model is an average for all the buildings. Each scope of work is classified as extensive rehabilitation and two buildings have supportive housing units. The buildings with only 2-4 units each have costs greater than the predictive model, while those with more units have costs within 125% of the predictive model. Most of the buildings contain a few very large units, so economies of scale are a significant factor, as there are fewer units to bear the cost of exterior work and the replacement of mechanical and HVAC systems. Four of the six buildings with four or fewer units have large four bedroom apartments, which leads to a building footprint comparable to a building with a larger number of smaller sized units.

Board Agenda Item: 7.I.
Attachment: HTC 2014 Round 2

HTC 2014 Round 2 – January 28, 2014:

Selection Summary

Project Number	Project Name	HTC Awarded
M16705	Hillside Apartments, Duluth	$ 185,849
M16703	Street E Townhomes, Jackson	$ 99,154
M16702	Northpoint Townhomes, Aitkin	$ 20,167
M16706	PPL DECC Recapitalization, Minneapolis	$ 25,000

TOTAL CREDITS AWARDED: $ 330,170
4 Projects

2013 Waiting List *

Project Number	Project Name	HTC Requested
M16704	Village at Frost-English	$ 828,942

TOTAL CREDITS REQUESTED: $828,942
1 Project

***** Staff has not completed final market or feasibility reviews for the Waiting List projects.
Only preliminary market and feasibility reviews have been completed for these projects at this time.
If funds become available the projects will be fully evaluated for underwriting, market and financial viabilities. Following these reviews, if a project fails to meet the required underwriting, market and feasibility review standards, staff funding considerations will move to the next qualified project on the list.

Board Agenda Item: 7.I.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION RESERVING FEDERAL LOW-INCOME HOUSING CREDITS FOR CALENDAR YEAR 2014 TO CERTAIN QUALIFIED LOW INCOME HOUSING PROJECTS 2014 - ROUND 2

WHEREAS, in accordance with the Tax Reform Act of 1986 and the provisions of Minnesota Statutes Sections 462A.221-462A.225, the Minnesota Housing Finance Agency (the Agency) has received applications as a duly designated housing credit agency for allocations to certain projects of the Low-Income Housing Credit provided by Section 42 of the Internal Revenue Code of 1986 (the Code); and

WHEREAS, Agency staff has applied to said applications the criteria set forth for selection in the Qualified Allocation Plan (QAP) and Procedural Manual for Low Income Housing Tax Credit Program (the Manual), duly adopted by the Board for 2014; and

WHEREAS, Agency staff has determined to reserve, for future allocation, portions of the state ceiling of the Low Income Housing Credit to the projects identified below, pending the final staff review and delivery by the applicants of additional certifications and information required for the Agency's issuance of such allocations.

WHEREAS, upon meeting the requirements for allocation contained in the Manual and QAP, Agency staff recommends allocating additional portions of the state ceiling of Low Income Housing Credits to the projects as follows:

Projects Receiving Additional Housing Tax Credits

Project Number	**Project Name**	**Additional HTC Awarded**
M16705	Hillside Apartments, Duluth	$ 185,849
M16703	Street E Townhomes, Jackson	$ 99,154
M16702	Northpoint Townhomes, Aitkin	$ 20,167
M16706	PPL DECC Recapitalization, Minneapolis	$ 25,000

Projects on the 2014 Waiting List

Project Number	**Project Name**	
M16704	Village at Frost-English	$ 828,942

Board Agenda Item: 7.I.
Attachment: Resolution

NOW, THEREFORE, BE IT RESOLVED:

1. THAT, pursuant to the above-referenced statutes and the allocation ranking factors contained in the Manual when applied to the applications submitted, the Board hereby modifies the previous adopted reservations for calendar year 2014 of the Low Income Housing Credit, upon compliance with all of the requirements contained in the Manual and QAP.

2. THAT, the Commissioner of the Agency is authorized to allocate the portions of the state ceiling of Low Income Housing Credits to the developments identified, and in the amounts, but not limited to the amounts set forth above, including a waiver to the $1,000,000 per development cap for Hillside Apartments and as funds become available, those other projects identified on the Waiting List set forth above.

3. THAT, notification letters concerning the above be forwarded to the approved applicants.

Adopted this 24th day of April, 2014.

____
CHAIRMAN

AGENDA ITEM: 7.J.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Qualified Allocation Plan (QAP) and Procedural Manual, 2016 Housing Tax Credit (HTC) Program

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REQUEST:

- [x] Approval
- [ ] Discussion
- [ ] Information

TYPE(S):

- [ ] Administrative
- [ ] Commitment(s)
- [x] Modification/Change
- [ ] Policy
- [ ] Selection(s)
- [ ] Waiver(s)
- [ ] Other: ____________________

ACTION:

- [x] Motion
- [ ] Resolution
- [ ] No Action Required

SUMMARY REQUEST:
Staff is recommending adoption of a motion for approval of the proposed revisions for the 2016 Housing Tax Credit Qualified Allocation Plan (QAP) and Procedural Manual.

FISCAL IMPACT:
This is a federally sponsored program not funded from state appropriations and will not have any direct fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

- [ ] Promote and support successful homeownership
- [x] Preserve federally-subsidized rental housing
- [x] Address specific and critical needs in rental housing markets
- [x] Prevent and end homelessness
- [x] Prevent foreclosures and support community recovery
- [ ] Strengthening Organizational Capacity

ATTACHMENT(S):

- Background, Suballocator Participation, Program Schedule
- Public Hearing Written Comments
- 2016 Housing Tax Credit Program, QAP and Procedural Manual Proposed Revisions
- Methodology and Data

Board Agenda Item: 7.J.
Attachment: Background

BACKGROUND:
The Federal Tax Reform Act of 1986 created the Housing Tax Credit Program (HTC) for qualified residential rental properties. The HTC program is the principal federal subsidy contained within the tax law for acquisition/substantial rehabilitation and new construction of low-income rental housing.

Section 42 of the Internal Revenue Code (IRC), requires that state allocating agencies develop a Qualified Allocation Plan (QAP) for the distribution of the tax credits within their jurisdiction. The QAP is subject to modification or amendment to ensure the provisions conform to the changing requirements of the IRC, applicable state statute, the changing environment and to best promote the Agency's strategic priorities. A preliminary summary of the proposed changes to the 2016 QAP and Procedural Manual was provided at the February 27, 2014 Board Meeting.

In accordance with Section 42, on March 2, 2014, the Agency published a notice soliciting public comment. Minnesota Housing staff held the public hearing on Monday, March 17, 2014. A summary of the proposed changes was made available to the public in advance of and at the hearing for review and comment. Five members of the general public attended the hearing in person, two provided oral comments on the QAP and fourteen written comments were submitted to the hearing. Copies of the written comments are attached.

A summary of the revisions to the 2016 QAP, Procedural Manual, and Selection Criteria are also attached.

SUBALLOCATOR PARTICIPATION:

Minneapolis, St. Paul, Dakota County, Washington County, Duluth, St. Cloud and Rochester are suballocators in the State of Minnesota. For the 2015 program year, the cities of Duluth, St. Cloud and Rochester have participated as Joint Powers suballocators through Joint Powers Agreements, under which the Agency will perform certain allocation and compliance functions on behalf of the suballocating agency. It is unknown at this time whether these suballocators will enter into Joint Powers Agreements for the 2016 program year.

TIMETABLE:

2016 HTC PROGRAM SCHEDULE

March 17, 2014	Minnesota Housing 2016 QAP Public Hearing
April 24, 2014	Agency Board asked to approve final 2016 QAP and Manual
April 20, 2015	Publish RFP for HTC 2016 Rounds 1 and 2 (Tentative date)
June 9, 2015	HTC 2016 Round 1 and 2015 MF Consolidated RFP Application Deadline (Tentative date)
October 22, 2015	Agency Board asked to approve HTC 2016 Round 1 selection recommendations (Tentative date)
January 27, 2016	HTC 2016 Round 2 Application Deadline (Tentative date)
April 23, 2016	Agency Board asked to approve HTC 2016 Round 2 selection recommendations (Tentative date)

2016 Housing Tax Credit Program, QAP and Procedural Manual
Proposed Revisions

Board Agenda Item: 7.J.
Attachment: Proposed Revisions

2016 Housing Tax Credit Program, QAP and Procedural Manual
Proposed Revisions

At the February, 2014 Board meeting, staff presented a proposed 2016 Qualified Allocation Plan (QAP) for the Housing Tax Credit program. Public comments on the proposed 2016 QAP were submitted to the Agency last month. Staff has carefully reviewed and considered all of the comments. Changes made as a result of comments are detailed below.

This Board report restates the explanation provided in the February 2014 report for proposed changes from the Amended 2014/2015 QAP to the 2016 QAP. Following the original explanation of each change is a summary of the public comments received and then staff's suggested modifications to the QAP in response to the public comments. To aid in readability, the information that the Board has not seen previously (the summary of public comments and staff's recommendations) is boxed and shaded.

Statutory

No statutory changes are proposed.

Qualified Allocation Plan and/or Procedural Manual

1. Clarify targeting of the State Designated Basis Boost.

The Housing and Economic Recovery Act of 2008 (HERA) allowed states to set standards for determining which areas and projects shall receive the state designated basis boost and define the criteria as part of the Agency's QAP and express its reasons for such determination. Staff proposes to clarify the existing criteria for the state designated basis boost, and to increase consistency with definitions found in related scoring criteria.

State Designated Basis Boost – Buildings Designated by State Housing Credit Agency [pursuant to 42(d)(5)(B)(v)]

It is the goal of Minnesota Housing to optimize the use of all available sources of funding for multifamily developments; including private investor equity, amortizing loans and deferred loans to produce the maximum number of affordable rental units in the most sustainable, quality, cost effective and geographically diverse developments possible which meet Minnesota Housing's strategic priorities. Consistent with this goal, the following criteria will be used to determine if, when, and in what amount, Minnesota Housing will provide a basis boost for housing tax credit developments on a building by building basis to obtain financial feasibility.

a. Development must meet state identified housing priorities as evidenced by competitive tax credit score and ~~involve community revitalization~~ at least one of the following:
   1. The development receives an award of points in the Self Scoring Worksheet in one or more Selection Priority area for the following:
      i. Historic preservation points must be awarded through the Federal/Local/Philanthropic Contributions priority for inclusion of historic tax credits,

ii. Preservation points must be awarded through the Preservation priority subcategory of ~~existing federally assisted buildings,~~ Existing Federal Assistance ~~including those eligible for points under preservation of~~ or the subcategory of Critical Affordable Units at Risk of Loss for existing tax credits units ~~in the self-scoring worksheet, housing with rents affordable to households at or below 30 percent of median income, including~~

iii. Permanent Housing for Households Experiencing Long-term Homelessness,

iv. ~~housing in response to significant proposed expansions in area employment or natural disaster recovery efforts, or~~

iv. Economically integrated housing providing at least 25 percent but not greater than 80 percent of the total units in the project as qualified HTC low income units (not including full-time manager or other common space units). (See Chapter 4.0).

2. The development, as determined by Minnesota Housing, will have rents which are affordable to households at or below 30 percent of area median income. As part of its application, the applicant must provide detailed and credible supporting evidence of financial feasibility.
3. The development, as determined by Minnesota Housing, responds to significant proposed expansions in area employment. As part of its application, the applicant must provide detailed and credible supporting evidence of such significant proposed expansions in area employment.
4. The development, as determined by Minnesota Housing, must be part of a Community Revitalization Plan as defined and described in the Housing Tax Credit Procedural Manual.
5. The development, as determined by Minnesota Housing, responds to natural disaster recovery efforts when a qualifying natural disaster is declared/certified (by Presidential, Governor and/or Minnesota Housing Board designation) and as provided for in the Qualified Allocation Plan. As part of its application, the applicant must provide detailed and credible supporting evidence of such response to natural disaster recovery efforts.

b. The application must demonstrate that, without the basis boost, a significant ~~Funding gaps~~ funding gap will remain for ~~for top ranking tax credit~~ the proposed development~~s~~.

c. The application must demonstrate that any tax credits ~~Credits~~ allocated in connection with the basis boost shall be no more than needed to achieve financial feasibility.

*Note: Requests by Applicants/Developers to Minnesota Housing to apply the 30% State designated basis boost must be formally made in writing. The request should clearly outline the reasons supporting the request and clearly demonstrate how the proposal meets the criteria established by Minnesota Housing for receiving boost considerations.

Public Comments Summary (*staff responses italicized*):

- **Section a.2 is not clear, and should include properties with long-term rental assistance contracts as affordable to households at or below 30% of area median income (AMI).**
  Minnesota Housing agrees that units with rental assistance allowing households to pay 30% of their income toward rent should be considered to meet this criterion.
- **The use of the boost appears to be expanded for critical affordable units at risk of loss, which is positive.**
  Existing tax credit units are eligible for points under the Critical Affordable Units at Risk of Loss, as they were under the previous Preservation of Existing Housing Tax Credit Units category, and no change was proposed in this regard.

Proposed Change Resulting from Public Comment (Changes bolded and underlined):

Revise a.2 to state "The development, as determined by Minnesota Housing, ~~will have rents which are~~ **will be** affordable to households at or below 30 percent of area median income. As part of its application, the applicant must provide detailed and credible supporting evidence of financial feasibility."

2. Revise the definition of, and requirements for, Community Revitalization in the Procedural Manual and Self-Scoring Worksheet.

Consideration for developments that contribute to community revitalization is given in multiple places in the Procedural Manual and Self-Scoring Worksheet. Consideration in the Procedural Manual is given for developments seeking the State Designated Basis Boost, projects requiring variances from HTC Development Standards, or requiring a waiver to HTC per development or per developer credit limit caps. Consideration in the Self-Scoring Worksheet is given to Metro area projects seeking to meet minimum threshold for Round 1, and in the Strategically Targeted Resources and QCT/Community Revitalization scoring criteria. However, the definition of community revitalization, and the criteria for whether a project contributes to a given community revitalization effort is inconsistent among these various references, and in need of clarification. Staff proposes to include a definition of Community Revitalization, and a description of acceptable documentation for demonstrating that a project contributes to a Community Revitalization plan, in a single section in the Procedural Manual, and to reference back to this for all other considerations of community revitalization found in the Procedural Manual and Self-Scoring Worksheet.

Proposed Definition for Procedural Manual:

A Community Revitalization Plan must meet the following:

- The Community Revitalization Plan is a current plan or initiative in which the local jurisdiction is actively engaged.
- The Revitalization Plan must be approved by a legislative or executive body that represents the entire jurisdiction in which the project is located.
- Geographic boundaries of a targeted geographic area must be identified.
- The Plan details the revitalization objectives, which include at least one of the following:
  (a) responding to a crisis;
  (b) addressing a local priority; or –
  (c) reversing historic underinvestment or decline in an area.
- The Plan includes the rehabilitation or production of affordable housing
- The Plan contains specific activities or means by which the local jurisdiction intends to pursue and implement the revitalization objectives, along with a timeline for action.
- The Plan identifies the efforts, contributions, and investment made, or that will be made, by the local jurisdiction and others in the revitalization area.

A comprehensive plan, land use plans and general neighborhood planning documents are not considered Community Revitalization Plans. In addition to submission of the Community Revitalization Plan, evidence that a project is part of the Plan will be required in the form of a letter from the applicable local jurisdiction which states that the development contributes to the specific goals of the plan, and identifies the efforts, contributions, and investment made, or to be made, by the local jurisdiction in the revitalization area.

Proposed Changes to the Self-Scoring Worksheet:

Proposed (Minimum Threshold Requirement):
Substantial rehabilitation projects in neighborhoods targeted by the city for revitalization. Evidence consistent with the requirements of a Community Revitalization Plan defined in section 4.P. of the Housing Tax Credit Procedural Manual must be submitted.

Proposed (Strategically Targeted Resources Scoring Criterion):

☐ The proposal is for the rehabilitation of an existing structure – ***10 points***

Note that for all HTC rehabilitation proposals:

the amount of rehabilitation must exceed:

a) $5,000 per low-income unit for the project; and the greater of
b) $6,500 qualified basis per low-income unit per building [as annually increased by cost of living adjustment per Section 42(e)(3)(D)]; or
c) 20 percent of the adjusted basis.

~~A qualified preservation project that received full points for "Preserves Federally Assisted Low Income Housing" may qualify if rehabilitation exceeds the greater of (b) or (c) above.~~

Calculation is based on rehabilitation hard costs and cannot include intermediary costs or soft costs identified in the application; plans and/or scope of work provided at the time of application.

☐ The rehabilitation proposal is part of a community revitalization or stabilization plan, as Community Revitalization Plan is defined in section 4.P. of the HTC Procedural Manual. – ***2 additional points***

Must be evidenced by a letter from the local jurisdiction verifying that the proposed project ~~is part of an approved community revitalization area as established by resolution or other legal action~~ contributes to the specific goals of the Plan.

OR

☐ The proposal is for new construction and will utilize existing sewer and water lines without substantial extensions –***10 points***

Proposed (QCT/Community Revitalization Scoring Criterion**):**
A point is awarded to projects that are located in a Qualified Census Tract (See Qualified Census Tract – Reference Materials Index) and are part of a concerted plan that provides for community revitalization. This must be evidenced by submission of a document that meets the definition of a Community Revitalization Plan found in section 4.P. of the HTC Procedural Manual and by a letter from the local jurisdiction ~~city~~ verifying that the proposed project ~~is part of an approved community revitalization area as established by resolution or other legal~~ contributes to the specific goals of the Plan.

Public Comments Summary (*staff responses italicized):*

- **The Agency received one letter supporting the addition of clarifying language.**

- **Existing community plans will not meet the proposed criteria, as they are too complex and specific, and will require amendment to comply with the proposed criteria and to be development-specific. In addition, the proposed criteria will result in inequitable outcomes for smaller cities, higher income communities, or jurisdictions opposed to affordable housing.**
  Minnesota Housing does not intend for a specific project be named in the Community Revitalization Plan. Documentation that a specific project contributes to the goals of the plans would be required in the form of a letter from the local jurisdiction, consistent with previous years' QAPs. Minnesota Housing supports development of affordable housing in higher income communities, and does not intend for the community revitalization priority to be a tool for prevention of affordable housing. Minnesota Housing will remove the proposed definition from the QAP.
- **Many typical plans undertaken by local governments, such as comprehensive plans, small area plans, land use plans, or general neighborhood planning documents will be improperly precluded from consideration.**
  A small area plan would be eligible to be considered a community revitalization plan, but as in the past, comprehensive plans and land use plans will not be eligible, as they do not evidence a local jurisdiction targeting a specific area, with a plan for focusing resources and efforts toward specific objectives in the specific target area.
- **What problem is trying to be solved and will it be worth the additional work required?**
  Minnesota Housing will remove the proposed definition from the QAP. The impetus for having a community revitalization priority is to be consistent with State Statute and IRS Section 42, and to give priority to projects in areas that are local priorities.

Proposed Change Resulting from Public Comment (Changes bolded and underlined):

- Remove definition of Community Revitalization from the Procedural Manual, along with all references to the definition in the Self-Scoring worksheet:

~~**A Community Revitalization Plan must meet the following:**~~

- ~~**The Community Revitalization Plan is a current plan or initiative in which the local jurisdiction is actively engaged.**~~
- ~~**The Revitalization Plan must be approved by a legislative or executive body that represents the entire jurisdiction in which the project is located.**~~
- ~~**Geographic boundaries of a targeted geographic area must be identified.**~~
- ~~**The Plan details the revitalization objectives, which include at least one of the following:**~~
  ~~**(a) responding to a crisis;**~~
  ~~**(b) addressing a local priority; or –**~~
  ~~**(c) reversing historic underinvestment or decline in an area.**~~
- ~~**The Plan includes the rehabilitation or production of affordable housing**~~
- ~~**The Plan contains specific activities or means by which the local jurisdiction intends to pursue and implement the revitalization objectives, along with a timeline for action.**~~
- ~~**The Plan identifies the efforts, contributions, and investment made, or that will be made, by the local jurisdiction and others in the revitalization area.**~~

~~**A comprehensive plan, land use plans and general neighborhood planning documents are not considered Community Revitalization Plans. In addition to submission of the Community Revitalization Plan, evidence that a project is part of the Plan will be required in the form of a letter from the applicable local jurisdiction which states that the development contributes to the specific goals of the plan, and identifies the efforts, contributions, and investment made, or to be made, by the local jurisdiction in the revitalization area.**~~

Self-Scoring Worksheet (Minimum Threshold Requirement):
Substantial rehabilitation projects in neighborhoods targeted by the city for revitalization. ~~**Evidence consistent with the requirements of a Community Revitalization Plan defined in section 4.P. of the Housing Tax Credit Procedural Manual must be submitted.**~~

Self-Scoring Worksheet (Strategically Targeted Resources Scoring Criterion):

☐ The proposal is for the rehabilitation of an existing structure – ***10 points***

Note that for all HTC rehabilitation proposals:

the amount of rehabilitation must exceed:

a) $5,000 per low-income unit for the project; and the greater of

b) $6,500 qualified basis per low-income unit per building [as annually increased by cost of living adjustment per Section 42(e)(3)(D)]; or

c) 20 percent of the adjusted basis.

~~A qualified preservation project that received full points for "Preserves Federally Assisted Low Income Housing" may qualify if rehabilitation exceeds the greater of (b) or (c) above.~~

Calculation is based on rehabilitation hard costs and cannot include intermediary costs or soft costs identified in the application; plans and/or scope of work provided at the time of application.

☐ The rehabilitation proposal is part of a community revitalization or stabilization plan~~**, as Community Revitalization Plan is defined in section 4.P. of the HTC Procedural Manual.**~~ – ***2 additional points***

Comprehensive plans and land use plans are not considered community revitalization plans.
Must be evidenced by a letter from the local jurisdiction verifying that the proposed project **is part of an approved community revitalization area as established by resolution or other legal action** ~~**contributes to the specific goals of the plan**~~.

OR

☐ The proposal is for new construction and will utilize existing sewer and water lines without substantial extensions –***10 points***

Self-Scoring Worksheet (QCT/Community Revitalization Scoring Criterion**):**
A point is awarded to projects that are located in a Qualified Census Tract (See Qualified Census Tract – Reference Materials Index) and are part of a concerted plan that provides for community revitalization. This must be evidenced by ~~**submission of a document that meets the definition of a Community Revitalization Plan found in section 4.P. of the HTC Procedural Manual and by**~~ a letter from the local jurisdiction ~~city~~ verifying that the proposed project **is part of an approved community revitalization area as established by resolution or other legal action.** ~~**contributes to the specific goals of the Plan.**~~

State-Designated Basis Boost Criteria:

The development, as determined by Minnesota Housing, must be part of a Community Revitalization Plan ~~as defined and described in the Housing Tax Credit Procedural Manual~~.

3. Revise the Serves Lowest Income Tenants/Rent Reduction scoring criterion.

The Serves Lowest Income Tenants/Rent Reduction scoring criterion provides 10 points for projects that will keep gross rents at 50% of Area Median Income (AMI) on 100% of units for 5 years, 5 points for a project that will keep gross rents at 50% of AMI on 50% of units for 5 years, and 3 additional points for a project that will restrict 30% of these units to 30% of AMI.

In practice, though the minimum set-aside election made on most of Minnesota Housing's competitive tax credit projects is for units to carry income restrictions at 60% AMI, keeping rents at 50% AMI ensures that there is increased affordability for the many households with incomes less than 60% that will eventually reside in tax credit projects, and ensures that a given property can afford to rent to households with incomes below 60% AMI if insufficient demand exists at this higher income level. As of 2011, the median income of households occupying HTC units in Minnesota was $17,864, and approximately 61 percent of HTC occupants without rent assistance were cost burdened (paying more than 30 percent of income toward housing). Because of these factors, staff proposes to add an option for additional points for applicants agreeing to restrict rents to 50% AMI for 10 years rather than 5 years.

Proposed

Scores are based on gross rent level including utilities before rental assistance. Eligible units must have rents affordable to households whose incomes do not exceed 30 percent or 50 percent of median income without rental assistance.

In addition to the elected income limit of 50 percent or 60 percent AMI for the full term of the declaration (refer to the Minimum Set-Aside), the applicant agrees to maintain deeper rent structuring for which selection points are requested.

Applicants may choose either option 1 or 2, and in addition, option 3 and/or option 4 for the development. This selection will restrict rents only (tenant incomes will not be restricted to the 50 percent or 30 percent income level by claiming points in this section).

☐ Option 1 – A project in which 100 percent of the HTC unit rents representing units are in the county 50 percent HUD area median rent limit – ***10 points***

☐ Option 2 – A project in which at least 50 percent of the HTC unit rents representing units are at the county 50 percent HUD area median rent limit – ***5 points***

~~OR~~ AND

☐ Option 3 – In addition to Option 1 or 2, a project that restricts the rents of all the units identified in Option 1 or 2 to the 50 percent HUD area median rent limit for a minimum of ten years after the last placed in service date for any building in the property – ***3 additional points***

AND/OR

☐ Option ~~3~~ 4 – In addition to Option 1 or 2, a project that further restricts 30 percent of the above restricted units to the county 30 percent HUD area median rent limit representing units – ***3 additional points***

NOTE: **If points are claimed/awarded for this category, then no points may be claimed/ awarded from the selection priority category of Rental Assistance for the same units.**

IMPORTANT

~~All~~ If points are claimed/awarded for Options 1 or 2, all 50 percent rent restricted units must meet the 50 percent area median rent for a minimum of five years after the last placed in service date for any building in the property. After the five year period has expired, rent may be increased to the 60 percent rent limit over a three year period with increases not to exceed the amount listed in the table below, provided that more restrictive threshold, selection priority or funding requirements do not apply.

~~All~~ If points are claimed/awarded for Option 4, all 30 percent rent restricted units must meet the 30 percent area median rent for a minimum of five years after the last placed in service date for any building in the property. After the five year period has expired, rent may be increased to the 40 percent rent limit over a three-year period with increases not to exceed the amount listed in the table below, provided that more restrictive threshold, selection priority or funding requirements do not apply.

YEAR	30% of 50% Rent Levels	30% of 30% Rent Levels
1 – 5	30% of 50%	30% of 30%
6	30% of 53%	30% of 33%
7	30% of 57%	30% of 37%
8	30% of 60%	30% of 40%

If points are claimed/awarded for this category's Option 3, all 50 percent rent restricted units must meet the 50 percent area median rent for a minimum of ten years after the last placed in service date for any building in the property. After the ten year period has expired, rent may be increased to the 60 percent rent limit over a three year period with increases not to exceed the amount listed in the table below, provided that more restrictive threshold, selection priority or funding requirements do not apply.

Year	30% of 50% Rent Levels
1-10	30% of 50%
11	30% of 53%
12	30% of 57%
13	30% of 60%

Public Comments Summary (*staff responses italicized):*
- No public comments received.

Proposed Change Resulting from Public Comment (changes bolded and underlined): No proposed change.

4. Revise the Economic Integration scoring criterion.

Points available under the 2014/2015 QAP for developments located in higher income communities were not substantial enough to have a significant influence on where developments were sited, or which developments were selected. While Minnesota Housing increased points in the 2014/2015 QAP, with developments located in first tier economic integration communities having access to 3 points rather than 1 point, and developments located in second tier economic integration communities having access to 5 points rather than 2 points, these increases did not result in receipt of more proposals located in these communities. Placing increased priority on developments located in high-income areas responds to public feedback about the importance of economic integration in local communities.

In addition, the methodology for determining eligible communities was revised so that small census tracts surrounded entirely by an eligible census tract are also deemed to meet the priority. Refer to the Community Economic Integration Methodology attachment for further information on the methodology used for this scoring criterion.

Proposed

☐ The proposed housing provides project economic integration by providing at least 25 percent but not greater than 80 percent of the total units in the project as qualified HTC low income units (does not include full-time manager or other common space units) * - **2 points**
OR
To promote economic integration, projects are awarded points for being located in higher income communities that are close to jobs (link to the methodology description, maps and census tract list).

☐ ***First Tier -*** The proposed housing is located in a census tract eligible for ~~3~~ **5 points**

☐ ***Second Tier -*** The proposed housing is located in a census tract eligible for ~~5~~ **7 points**

Public Comments Summary (*staff responses italicized):*
- **In order to pick up more suburban areas, expand the priority area to include additional tracts that have access to fewer jobs, or expand the commuter shed from 5 miles to 8 or 10 miles.** *Minnesota Housing agrees that in the proposed methodology, some higher income census tracts in the Metro that are relatively close to a job center were being excluded. Further, the eligible tracts in the Metro accounted for just 46% of households, compared to 56% of households in Greater Minnesota. The QAP will be revised so that the threshold for job access in the Metro is expanded from the 80% of census tracts with access to the most jobs to the 90% of tracts with*

access to the most jobs. In Greater Minnesota, the threshold will be kept at 80%. By increasing the threshold from 80% to 90% for the Metro, the percentage increases to 55% of households, which is now very close to the Greater Minnesota percentage.

- **Because mixed-income development does not make economic sense except in very high income areas, and the Agency is providing incentives to build in high income areas under the Economic Integration selection criterion, there are no incentives to develop projects in poor communities with a history of undercapitalization – akin to redlining. We need to equally incentivize quality affordable housing or mixed-income housing in less affluent communities, especially when the housing will transform a community or de-concentrate poverty in a particular location.**
  In the QAP, Minnesota Housing is addressing and balancing multiple policy goals, including giving lower-income households access to higher income communities (which often have lower crime rates and better schools) and revitalizing lower-income communities that need an infusion of capital investment. The map in the Methodology and Data attachment titled "Combined Geographic Priority Point Potential, 2016 QAP: Twin Cities" shows the number of points that are available in the Metro under the five geographic-based scoring criteria in the QAP. As the map shows, with the five geographic-based scoring criteria in combination, the QAP is incentivizing housing development in a broad range of communities.
- **The QAP should allow a developer to demonstrate why an attractive and available site close to but not within a high income census tract should be considered economic integration.**
  To provide consistent, objective, reliable, and transparent scoring, Minnesota Housing needs to perform a consistent analysis for each funding application. For income data, a census tract is the geography with the best available data that approximates a neighborhood and should be used consistently. Adding flexibility will add subjectivity and potential inconsistency, and it would be difficult to develop parameters to frame this sort of decision. In addition, it is easy to imagine the slippery slope that would be created if proximity to a higher income tract (rather than just within the tract) became the standard for economic integration. How close would a site need to be to the high income census tract? If the Agency allowed a developer points for arguing that a site within ¼ mile of a high income tract meets the priority, a developer with a project that is 3/8ths of a mile could argue that the proximity distance should be extended, and if that is allowed, a developer with a site ½ mile from a high income tract could make the same argument.
- **Economic Integration should receive higher priority than location efficiency so that development is not skewed away from sites adjacent to good schools and employment, particularly in the suburbs.**
  Minnesota Housing agrees that economic integration is an equally important policy goal as location efficiency, and will increase the points for economic integration and decrease the proposed points for location efficiency, to equalize the maximum points for each category at nine points.

Proposed Change Resulting from Public Comment (changes bolded and underlined):

- Utilize the revised Economic Integration Methodology included in the Methodology and Data attachment, which revises eligible tracts so that the threshold for job access in the Metro is expanded from the 80% of census tracts with access to the most jobs to the 90% of tracts with access to the most jobs.

- Increase maximum available points for Economic Integration to 9 points:

☐ ***Second Tier -*** The proposed housing is located in a census tract eligible for ~~3~~ ~~5~~ 7 **points**

☐ ~~Second~~ ***First Tier -*** The proposed housing is located in a census tract eligible for ~~5~~ ~~7~~ 9 **points**

5. Revise priorities under the Preservation of Federally Assisted Units, Preservation of Existing Housing Tax Credit Units, and Stabilization, creating one Preservation scoring criterion.

For the 2016 QAP, staff proposes to combine the 2014/2015 categories of Preservation of Federally Assisted Units, Preservation of Existing Housing Tax Credit Units and Stabilization into one, requiring all three project types to meet the locational and community impact factors previously laid out under Preservation of Federally Assisted Units. The locational and community impact factors spell out the investment priorities of the Agency, and so are recommended to be threshold considerations for all developments competing under preservation, regardless of the type of property being preserved. This approach equalizes the priority placed on market conversion risk (previously imminent risk of loss), critical physical needs and ownership capacity needs (previously high risk of loss). Under the revised Preservation category, if one of the three locational and community impact factor thresholds is met, a priority level will then be ascribed to what type of property is being preserved – i.e. units made affordable by way of federal rent assistance or other critical affordable units made affordable due to another funding source, such as deferred loans or tax credits. Critical affordable units at risk of loss are considered to be those with existing rent or income restrictions causing units to be affordable that are well located according to Agency priorities, and that will continue to serve households with rents affordable at or below 50 percent of area median income.

For federally assisted units, in order to give consideration to the number of units with rent assistance being preserved, bonus points are then awarded based on the number of units with federal assistance being preserved in a development, and for other critical affordable units at risk of loss, bonus points are awarded for projects demonstrating funder collaboration, as evidenced by soft commitments for funding modifications, debt forgiveness, or other new funds that are not recognized elsewhere in the QAP and that can be a catalyst for additional leverage or financial support.

Another revision to the category, which builds on the Agency's efforts to shift preservation efforts from reactive to proactive, removes the requirement that a property be within a certain timeframe of contract expiration from the thresholds for critical physical needs and ownership capacity, and lengthens the window of eligibility for the market conversion threshold. This change creates a shift from targeting properties at the final hours of a contract expiration date or market conversion threat, and should encourage owners to identify strong preservation proposals based on location, community impact, and performance, rather than identification of proposals based on the imminence of the contract expiration or market conversion threat.

In conjunction with these changes, staff proposes a mandatory preservation pre-application process be implemented. Staff anticipates that this process will result in stronger preservation applications coming in, as applicants will know early on whether they appear to qualify for Preservation points and can decide whether to move forward with the due diligence required for a full tax credit application. There has been strong support from both the funding and development communities for this process, and it is expected to add efficiency to the selection process for Agency staff as preservation eligibility would be known at the time of application.

Lastly, staff proposes that any applicant claiming points under the Preservation scoring criterion in a competitive 9% application must also submit a dual 4% application for tax-exempt bonds. The Agency has utilized the dual application process on a voluntary basis for both new construction and preservation proposals over the past two RFP funding rounds to provide the Agency greater ability to maximize the structure of funding awards made to each development, and as an option to provide applicants with a greater potential for selection. Because the 9% credit resource is so scarce, and tax-exempt bond structuring has become feasible for more projects as bond and equity markets continue to strengthen, encouraging greater utilization of the 4% credit resource is advantageous. While new construction projects need large amounts of 9% credits, it is anticipated that it may be feasible to structure some preservation projects with smaller rehab work scopes using tax-exempt bonds and 4% credits rather than 9% credits. In particular, it is expected that projects which pose a market conversion risk will be in good condition and able to convert to market without large investments of capital, and therefore may not require the large injection of capital generated by a 9% credit award. Requiring a dual application will allow the Agency to make the determination as to which funding structure best maximizes Agency resources.

Current (2014/2015 Amended Preservation of Federally Assisted Units):
DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a U.S. Department of Housing and Urban Development ("HUD") or U.S. Department of Agriculture Rural Development ("RD") program that is not scheduled to sunset or expire. NAHASDA is eligible for points under Imminent Risk of Loss provided that criteria 1.b. and 1.c. are met, and eligible for points under High Risk of Loss provided that either criterion 2.a. or 2.b. is met.

In order to obtain the related points, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available. Except for "good cause" the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

☐ **<u>Imminent Risk of Loss – 30 Points</u>**

1. To obtain these points, the existing federal assistance must be at risk of loss within three years of application date due to prepayment/opt-out/mortgage maturity and conversion to market rate housing.

   Attach evidence (narratives), including eligibility dates, with copies of relevant expiring contracts, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties AND documentation to fully evidence all of the following:

☐ a. Location in either a jobs growth area or household growth area (as published by Minnesota Housing); and

☐ b. Market for conversion evidenced by significant rent differential and low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

☐ c. The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and amenities necessary to match market comparable units.

Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

☐ **High Risk of Loss – 25 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss under one of the following two thresholds:

☐ Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and the local need for subsidized units can be demonstrated by data evidencing rent-burdened population (as published by Minnesota Housing): Cost Burdened Lower Income Renters You can find this information in the agency's community profiles interactive mapping tool

or

☐ Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and property is located in either jobs growth area or household growth area (as published by Minnesota Housing); Preservation Geographic Priority Areas

AND

either 2a. or 2b. is true.

2. Reason for high risk of loss:

2a. ☐ Critical physical needs identified by third party assessment to support the following conclusions:

   i. As-is condition of a property's physical component(s) does not meet:
      1. HUD's Uniform Physical Condition Standards (UPCS), or
      2. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification, and

ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of federally assisted units, and
   1. Identified scope of critical physical needs exceeds the available reserves.

   Attach evidence of most recent REAC score or RD classification, outstanding code violations or other inspection results that threaten sustained operations under the federal assistance. Evidence of inspection results is not required for NAHASDA. Attach Determination of Critical Physical Needs worksheet.

OR

2b. ☐ A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:
   i. Bankruptcy/insolvency
   ii. Self-determination of diminishing or insufficient capacity by nonprofit board

NOTE: Points cannot be claimed/awarded for both Imminent Risk of Loss and High Risk of Loss.

☐ **Number of units preserved – 1-10 additional points**

1. To obtain these points, score for the appropriate number of federally assisted units proposed for preservation:

   1a. Metro or Greater Minnesota MSA*
   ☐ 12-30 units **– 1 point**
   ☐ 31-60 units **– 3 points**
   ☐ 61-100 units **– 7 points**
   ☐ 101+ units **– 10 points**

   * Greater Minnesota MSA (Metropolitan Statistical Area) as defined by HUD: Duluth, St. Cloud, Fargo/Moorhead, Rochester, Mankato, LaCrosse, Grand Forks, Minneapolis/St. Paul MSA outside of the 7 county metro (including Chisago, Isanti, Sherburne, and Wright Counties)

   1b. Greater Minnesota / Rural
   ☐ 8-20 units **– 3 points**
   ☐ 21-40 units **– 5 points**
   ☐ 41+ units **– 10 points**

   Greater Minnesota MSA's and preservation household and job growth communities' maps and census tract listing are found on Minnesota Housing's website: Census Tracts. Additionally, find these details the agency's community profiles interactive mapping tool

NOTE: Points cannot be claimed/awarded for Preservation of Federally Assisted Units if points are claimed/awarded for the same units under the Rental Assistance preference priority.

Current (2014/2015 Amended Preservation of Existing Housing Tax Credit Units):

These points are available only to existing Minnesota Housing tax credit projects applying for tax credits from Minnesota Housing's competitive allocation process (consolidated RFP) and qualified tax exempt projects applying for a preliminary determination letter from Minnesota Housing as the credit allocator.

To obtain the related points, the existing tax credit housing must meet all of the following:

1. The development received a Minnesota Housing allocation of housing tax credits and is eligible to exercise their option under the provisions of Section 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (Qualified Contract) within the next 12 months (developments that have exercised their option to opt out under the Qualified Contract process are not eligible for points in this category); and
2. Applicant agrees to maintain the Housing Tax Credit Units in the development for at least 30 years; and
3. The proposal will not result in the displacement of existing low and moderate income residents;
4. The development must claim and be eligible for points under Serves Lowest Income Tenants/Rent Reduction.

AND either 5a. or 5b. is true (check one)

5a. ☐ **<u>Imminent Risk of Loss –10 points</u>**

Attach evidence including eligibility dates and copies of relevant documents that describe option to file for Qualified Contract and to fully evidence both of the following:

- ☐ Market for conversion evidenced by significant rent differential and low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and
- ☐ The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and additional amenities necessary to match market comparable units.

5b. ☐ **<u>High Risk of Loss – 7 Points</u>**

Due to:

- ☐ Critical physical needs identified by third party assessment to support the following conclusions:
  - i. As-is condition of a property's physical component(s) does not meet:
    - a. HUD's Uniform Physical Condition Standards (UPCS), or
    - b. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification, and
  - ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of Housing Tax Credit units; and

iii. Identified scope of critical physical needs exceeds the available reserves.

Attach evidence of most recent UPCS findings, outstanding code violations or other inspection results that threaten sustained operations under the housing tax credit program. Attach Determination of Critical Physical Needs worksheet.

OR

☐ A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

i. Bankruptcy
ii. Self-determination of diminishing or insufficient capacity by nonprofit board

NOTE: Points cannot be claimed/awarded for both Imminent Risk of Loss and High Risk of Loss.

Current (Stabilization):

These points are available only to properties with existing federally assisted units or previously funded by tax credits or deferred loans from Minnesota Housing or Interagency Stabilization Group (ISG) partner funders that are not also claiming points for Preservation of Federally Assisted Units or Preservation of Existing Housing Tax Credit Units.

Applicants must provide narratives to support the approach of a planned, long term and cost effective stabilization that meets all of the following criteria:

☐ **<u>Stabilization</u>**

1. Suitability for long term stabilization:
   a. 15 or more years have passed since initial loan closing or most recent tax credit placed in service date; and
   b. Operating feasibility shows duration of at least 20 years; and
   c. ISG vote to confirm collaborative funder commitment and feasibility of the development's stabilization proposal;

AND

2. Collaborative relationship in place:
   a. Property claims and is deemed eligible for the following points:
      i. Financial Readiness to Proceed - Minimum of 6 points; and
      ii. Federal/Local/Philanthropic Contributions - Minimum of 8 points;

AND

3. Affordability and Cost Effectiveness:
   a. Property claims and is deemed eligible for points under preference priority of Serves Lowest Income Tenants/Rent Reduction; and
   b. Property claims and is deemed eligible for points under preference priority of Cost Containment.

NOTE: <u>Points cannot be claimed in this Stabilization category if points are claimed in the Preservation of Federally Assisted Units or the Preservation of Existing Tax Credit Units categories.</u>

Proposed (Preservation)

NOTE: For ease of reading and given the scale of the language changes, this section is not presented in black-line format.

IMPORTANT NOTE: DUAL APPLICATION & PRE-APPLICATION REQUIRED

Applicant claiming points under this section must submit dual application as defined in the Multifamily Consolidated RFP Guide.

In order to be eligible for points under this section, applicant must participate in mandatory technical assistance session and provide required submissions prior to May 15, 2015 for HTC Round 1 and prior to December 15, 2015 for HTC Round 2, as detailed in the Housing Tax Credit Procedural Manual Section 7.A.4. Applicant must provide Agency's "Preliminary Determination of Preservation Eligibility" letter which reflects threshold and points taken below.

Choose one of the following three Thresholds:

☐ **Risk of Loss Due to Market Conversion**

1. Expiration of contract/use-restrictions
    a. Existing property at risk of conversion to market rate housing within five years of application date (attach copies of relevant expiring contracts including eligibility dates, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties or other evidence of eligibility for use-restricted units to convert to market rate,); **OR**

    b. Existing tax credit developments must be eligible to exercise their option to file for a Qualified Contract, and have not previously exercised their option; **AND**

2. Market for conversion evidenced by low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); **AND**

3. The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to fund improvements and amenities necessary to match market comparable units as evidenced by Three Year Conversion Model and market study (Market comparables and improvement cost estimates to be validated by Minnesota Housing at Minnesota Housing's discretion); **AND**

4. Location in a jobs growth or household growth area as defined in the Agency's community profiles interactive mapping tool; **AND**

5. Fifteen (15) or more years have passed since initial loan closing or most recent tax credit placed in service date.

NOTE: Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

☐ **Risk of Loss Due to Critical Physical Needs**

1. Fifteen (15) or more years have passed since initial loan closing or most recent tax credit placed in service date; **AND**

2. Critical physical needs identified by third party assessment to support the following conclusions:
   a. As-is condition of a property's physical component(s) does not meet:
      i. HUD's Uniform Physical Condition Standards (UPCS), **OR**
      ii. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification; **AND**
   b. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations; **AND**
   c. Identified scope of critical physical needs exceeds the available reserves by at least $5,000 per unit, as evidenced by Three Year Critical Needs Model; **AND**

3. Location in one of three geographic priority areas: jobs growth area, household growth area OR an area designated as having a large affordable housing gap, as evidenced in Minnesota Housing's community profiles interactive mapping tool, or as evidenced by tribal housing authority waiting list.

☐ **Risk of Loss Due to Ownership Capacity**

1. Fifteen (15) or more years have passed since initial loan closing or most recent tax credit placed in service date; **AND**
2. Current ownership puts units at risk of remaining decent, safe, or affordable. Applicable events might include bankruptcy, insolvency, self-determination by nonprofit board; **AND**
3. Location in one of three geographic priority areas: jobs growth area, household growth area OR an area designated as having a large affordable housing gap, as evidenced in Minnesota Housing's community profiles interactive mapping tool, or as evidenced by tribal housing authority waiting list.

   Minnesota Housing, at its sole discretion, must agree that a change in ownership is necessary for units to remain decent, safe, or affordable.

SCORING:
For projects meeting one of the three Thresholds above, choose points under Existing Federal Assistance or Critical Affordable Units at Risk of Loss below.

1. Existing Federal Assistance
Definition: Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a U.S. Department of Housing and Urban Development

(“HUD”),U.S. Department of Agriculture Rural Development (“RD”), NAHASDA or other program that is not scheduled to sunset or expire.

In order to obtain points for existing federal assistance, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available. Except for “good cause” the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

1.a. ☐ Existing Federally Assisted Units.- **25 points**

AND

1.b. Score for the appropriate number of federally assisted units currently under contract for preservation:

i. Metro or Greater Minnesota MSA*

☐ 12-30 units **– 1 point**
☐ 31-60 units **– 3 points**
☐ 61-100 units **– 7 points**
☐ 101+ units **– 10 points**

* Greater Minnesota MSA (Metropolitan Statistical Area) as defined by HUD: Duluth, St. Cloud, Fargo/Moorhead, Rochester, Mankato, LaCrosse, Grand Forks, Minneapolis/St. Paul MSA outside of the 7 county metro (including Chisago, Isanti, Sherburne, and Wright Counties) Greater Minnesota MSAs are found on Minnesota Housing’s website: Census Tracts.

ii. Greater Minnesota/Rural

☐ 8-20 units **– 3 points**
☐ 21-40 units **– 5 points**
☐ 41+ units **– 10 points**

OR

2. Critical Affordable Units at Risk of Loss

2.a. ☐ Any housing with a current recorded deed restriction limiting rent or income restrictions at or below the greater of 80% of statewide median income or area median income. Includes existing tax credit units, existing federal assistance not described in paragraph 1. above (i.e. 202, 236, etc.), or other programs limiting income and rent restrictions as stated above.

AND

Must also claim and be awarded points for at least three of the following scoring criteria: Economic Integration, Minimizing Transportation Costs and Promoting Access to Transit, Workforce Housing Communities, Temporary Priority – Foreclosed Properties, **OR** QCT/Community Revitalization; **AND** must also claim and be awarded points under Serves Lowest Income Tenants/Rent Reduction for either Option 1 **OR** Option 2, **AND** Option 3. - **9 points**

2.b. ☐ **Funder Collaboration – 5 additional points**
Projects having funder commitments $_______ divided by Total Development Cost $_________equal to 10.0% or greater (rounded to the nearest tenth)

Funder Commitments include:

- Debt forgiveness
- Assumption of Debt
- Commitment of new funds
- Extension of loan term
- Forgiveness of interest payable
- Reduction in interest rate (measured as amount of interest saved over term of loan)

Commitments must contain no contingencies other than receipt of a tax credit award. At that the time of application, written documentation from the contributor justifying the amount and the terms of the contribution must be provided. Within six months of the date of selection (Minnesota Housing Board selection date) the applicant must provide Minnesota Housing with documentation of a firm commitment, authorization, or approval of the contribution. The documentation must state the amount, terms, and conditions, and be executed or approved at a minimum by the contributor. Documentation containing words synonymous with "consider" or "may", (as in "may award") regarding the contribution, will not be considered acceptable. Lack of acceptable documentation will result in the reevaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

Points cannot be taken under 2.b. Funder Collaboration and the Federal/Local/Philanthropic Contributions scoring criterion for the same sources.

Public Comments Summary (*staff responses italicized):*

- **The Agency received five letters supporting the proposed criteria.**
- **Reduce the locational criteria required for Critical Affordable Units at Risk of Loss that must be met from three to two. This will allow properties in Greater Minnesota to compete more effectively.**
  Each of the geographic priority areas individually are designed to be equitably available to both Greater MN and the Metro areas, and no evidence of bias has been found between projects that have met at least three of these criteria in Greater MN vs. projects that met the criteria in the Metro, overall, or for preservation proposals specifically. No rationale for this suggestion, other than the concern that Greater Minnesota properties will be at a disadvantage, was provided. Because there will be significantly more developments that meet the rent and income restrictions proposed than Minnesota Housing could fund, and because no evidence of geographic bias was found, Minnesota Housing believes requiring three of the five criteria to be met is an important way to prioritize among these properties to ensure we are preserving the most critical affordable units at risk of loss.
- **Providing funder support in advance of the RFP is prohibited in Minnesota Housing's Self-Scoring Worksheet, and the process needs to be refined to avoid conflicts of interest, to clarify what constitutes a funder commitment, and to clarify how a commitment of existing Minnesota Housing financing can be obtained.**

The Self-Scoring Worksheet does not prohibit a funding partner from committing funds prior to the RFP, but Minnesota Housing agrees that the process for pursuing collaborative preservation efforts, including those coming through the Interagency Stabilization Group (ISG), should be evaluated to ensure conflicts of interest are avoided and coordination with funding partners is maximized. Minnesota Housing's PINES Team has begun this effort, and will continue to evaluate this in collaboration with funding partners. Minnesota Housing's current process for approving requests for assumptions or extensions of existing financing is the Request for Action (RFA) process. The RFA process doesn't preclude projects that are not fully funded from applying for an assumption or extension, and Agency staff have reviewed requests of this type. For the purposes of measuring funder collaboration under this category, debt forgiveness, assumption of debt, commitment of new funds, extension of loan term, forgiveness of interest payable, or reduction in interest rate will be considered funder commitments if documentation from the contributor justifying the amount and terms of the contribution is provided at application with no contingencies other than receipt of a tax credit award, with a firm commitment provided within six months of selection. Applicants are encouraged in technical assistance to obtain guidance on specific questions regarding the documentation needed in order to obtain points.

- **Developments that have gone through ISG or Stewardship Council have the benefit of coordinated funder efforts and should specifically receive priority.**
  Minnesota Housing agrees that there is significant benefit to the preservation of developments being approached in a coordinated and collaborative manner, as occurs for developments worked on through the ISG and Stewardship Council groups. The intent of the change to this category is to provide a tangible and objective measure of the benefit provided by the type of coordination and collaboration provided by efforts such as ISG or Stewardship Council, and to ensure equal access to all projects with collaborative preservation plans, regardless of the funders involved. Minnesota Housing expects that projects actively working with ISG or Stewardship Council will likely be eligible for these points because of the work with their current funders. Minnesota Housing intends for the measure proposed to capture developments which have multiple funders participating in a preservation effort, and not those with single funder support. The 10% target was proposed as a number that would likely take multiple funders to arrive at, but that would not exclude those properties without as much existing debt to be worked out. If the category does not work as expected, for future QAPs Minnesota Housing would be willing to increase the target above 10% to a percentage that would better capture only those developments with collaborative rather than single funder support, or to revise the category so that only those projects with a majority of funders having agreed to the type of commitment specified would be eligible for the points.
- **Not all applicants should be required to submit dual applications as this will be onerous. The Agency should determine which projects have potential to be feasibly structured as a 4% tax exempt bond transaction through use of a threshold or through technical assistance.**
  A dual application requires one additional Multifamily Workbook (formerly 402/HTC-1) and Self-Scoring Worksheet, along with signature of a form letter. Minnesota Housing has experience with applicants voluntarily pursuing dual applications in past funding rounds, and does not feel

that this is onerous in terms of submittal requirements. In addition, Minnesota Housing expects that applicants are analyzing all projects to determine whether they may be feasible without the scarce 9% credit resource, regardless of the dual application requirement for applicants claiming points under the Preservation category. While some additional work is required of applicants to prepare the required submissions, we expect that the policy benefit of possibly doing more units is greater than the cost of the additional time required for applicants to complete a dual application. Determining whether to structure a project with 4% or 9% credits after all applications have been received allows staff the benefit of full underwriting information based on a full application package, and provides Minnesota Housing the flexibility of structuring each development so as to maximize the number of units that can be funded in total, by choosing to strategically use the 4 and 9% credits depending on the type and competitiveness of all applications submitted and the funding available to be awarded. While Minnesota Housing aims to maximize usage of the less scarce and underutilized 4% tax credit, we acknowledge that some transactions, especially those involving smaller projects, will never likely be feasible as 4% tax-exempt bond deals, and propose to exclude proposals of less than 40 units from the dual application requirement.

- **Provide top priority for serving households at 30% AMI, regardless of whether the units are affordable through federal assistance.**
  Focusing on developments with federal rental assistance allows Minnesota Housing to preserve developments serving the lowest income households, with a source that enables the developments to be financially viable for the long-term, and to leverage federal resources. The present value of the federal assistance preserved for serving low income households in the State of Minnesota for the 540 units with project-based federal assistance in the 2013 RFP was estimated at approximately $43 million.
- **Existing family supportive housing with Section 8 should be the top priority for preservation.**
  The proposed QAP provides very high priority for developments with existing Section 8, or other federal assistance. In addition, properties serving large families receive points under the Household Targeting scoring criterion. Existing supportive housing may also be eligible for points under Critical Affordable Units at Risk of Loss.
- **Include a two- or three-year lookback for owners who have proactively responded to imminent threats by repairing critical physical needs or purchasing property from an owner with diminished capacity in advance of the tax credit application.**
  Because a property with substantial critical needs will likely need the infusion of 9% tax credits in addition to any potential interim financing an owner uses for repairs in advance of the tax credit application, we also expect that a property in such physical condition that receives only a partial rehabilitation will also likely still meet the criteria for critical physical needs. Minnesota Housing has many more flexible resources in the preservation toolbox other than the 9% credit, and we, along with our partners, have a long history of successfully preserving developments at risk due to less substantial physical needs or diminished owner capacity.

- **Minnesota Housing should work with state industry experts to assess the impact of the RAD program in the coming years and how it interacts with the state's tax credit program, the Project Based Section 8 program, as well as the federal funding landscape.**
  Minnesota Housing has been assessing the landscape for potential developments under HUD's Rental Assistance Demonstration (RAD) Program, but has not yet heard of any activity. Our expectation when and if any potential RAD developments materialize would be that they would primarily seek 4% credits, which is consistent with national trends.
- **Minnesota Housing's policy has been to process long-term HAP contract renewals only at the time of contract expiration, while lenders and investors almost always require renewal at the time of refinance. Minnesota Housing's long-term HAP renewal policy should be revisited, otherwise it will conflict with Minnesota Housing's move toward allowing deals that are outside of a certain timeframe of contract expiration.**
  While Minnesota Housing may not have flexibility in this regard in some situations due to contract requirements, if there are situations where the contract or the regulations allow for flexibility, Minnesota Housing's PINES Team would be open to discussion with stakeholders in this regard.
- **Preservation that could catalyze investment and revitalize weaker markets should be considered, in addition to preservation of properties occupied by minority households in low income neighborhoods rather than only prioritizing preservation in strong markets and areas of opportunities.**
  Under the market conversion risk preservation threshold, Minnesota Housing is specifically interested in preserving properties that are in strong markets that would support the ability for the owner to convert the units to market rate. For the other two thresholds, Risk of Loss Due to Critical Physical Needs and Risk of Loss Due to Ownership Capacity, Minnesota Housing is targeting properties that are either in strong markets or in communities with a large need for affordable housing, regardless of market strength. The overlay of all QAP locational criteria combined picks up both strong and weak markets.

Proposed Change Resulting from Public Comment (changes bolded and underlined):

- Applicant claiming points under this section **<u>for projects of 40 units or greater</u>** must submit dual application as defined in the Multifamily Consolidated RFP Guide.

6. Revise the Rental Assistance scoring criterion

Over the past several years, Minnesota Housing and our partners have worked to define the criteria for determining which properties are the highest priorities for preservation, and detailed out this framework in the 2014/2015 Preservation scoring categories. However, applicants with federal assistance had the option of claiming a substantial number of points under the Preservation of Federally Assisted Units category, or, if their proposal may not have met all of the criteria detailed out in this category, of claiming a large number of points under the Rental Assistance category. Because of the availability of these substantial points under Rental Assistance, projects with federal assistance were able to be competitive without meeting the priorities detailed under the

Preservation of Federally Assisted Units category that were intended to guide our investment decisions in federally assisted properties. Given that projects with existing rental assistance which meets the definition of federal assistance under the Preservation scoring criterion are eligible for priority in that category, staff proposes excluding them from eligibility under the Rental Assistance category. Projects with existing rental assistance that does not meet the definition of federal assistance under the Preservation scoring criterion, or projects with new commitments for rental assistance that is considered federal assistance, would continue to be eligible for points under Rental Assistance.

Proposed

Priority is given to an owner that submits with the application a **fully executed binding commitment** (i.e. binding Resolution/binding Letter of Approval from the governing body) for project based rental assistance awarded in accordance with 24 CFR Ch. IX, Section 983.51 or are effectively project based by written contract ~~(e.g. NAHASDA)~~. The assisted units must be located in buildings on the project site. **A development that has existing rental assistance meeting the definition of federal assistance under the Preservation scoring category is not eligible for an award of points under Rental Assistance.** ~~**For the purpose of this section, if a proposal contains existing project based assisted units, these units will be counted towards meeting required Rental Assistance percentages.**~~

Rent for assisted units must be at or below Fair Market Rents (or appropriate payment standard for the project area). Receiving these points and agreeing to a minimum number of assisted units does not release owners from their obligations under the Minnesota Human Rights Act and Section 42 prohibiting refusal to lease to the holder of a voucher of eligibility under Section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder.

A current request for Minnesota Housing Rental Assistance will not receive Rental Assistance points. A past award of existing Rental Assistance will be counted toward meeting the required percentages. Indicate the applicable combinations of the below components. Points for A, B, C and D cannot be claimed in any combination.

(A) For developments agreeing to set aside and having the required binding commitment for 100 percent of the total units for project based rental assistance – ***17 points***
(B) For developments agreeing to set aside and having the required binding commitment for at least 51 percent of the total units for project based rental assistance – ***13 points***
(C) For developments agreeing to set aside and having the required binding commitment for at least 20 percent but under 51 percent of the total units for project based rental assistance – ***10 points***
(D) For developments agreeing to set aside and having the required binding commitment for at least 10 percent but under 20 percent of the total units for the project based rental assistance – ***6 points***
(E) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a minimum 10 year new or remaining contract term – ***4 points***
(F) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a 4 to 9 year new or remaining contract term – **2** ***points***

NOTE: If points are claimed/awarded under any of the above, then no points may be claimed/awarded from the preference priority categories of Serves Lowest-Income Tenants/Rent Reduction for the same units.

NOTE: Points cannot be claimed/awarded under the Rental Assistance preference priority if points are claimed/awarded for the same units for Existing Federal Assistance under the Preservation ~~of Federally Assisted Units~~ selection priority.

(G) For developments that cooperatively develop a housing plan/agreement to provide **other** Rental Assistance (e.g. Section 8, portable tenant based, formal recommendation for McKinney Vento Shelter Plus Care rent assistance, or other similar programs approved by Minnesota Housing) to meet the existing need as evidenced at application by a letter of intent signed by both the applicant and the local housing authority or other similar entities – ***4 points***

Public Comments Summary (*staff responses italicized):*

- No public comments received.

Proposed Change Resulting from Public Comment (changes bolded and underlined): No proposed change.

7. Revise the Minimizing Transportation Costs and Promoting Access to Transit scoring criterion, retitle Location Efficiency.

The Minimizing Transportation Costs and Promoting Access to Transit scoring category is being retitled Location Efficiency, and being revised to better incentivize the most efficient locations and designs that will allow for and promote minimizing transportation costs for residents.

A measure of walkability is being added to the Metro area criterion using Walk Score. In Greater Minnesota, staff is recommending the Walk Score measure replace the 2014/2015 priority provided for projects within a certain proximity of at least four service, shopping, or recreational facilities. Walk Score (www.walkscore.com) is a web-based tool that calculates walkability via a walk score for locations across the county. The walk score is a value ranged from 1-100 with 100 being the most walkable, and areas valued under 25 deemed “car dependent”. For each address, the tool analyzes walking routes to nearby amenities such as restaurants, schools, shopping districts, parks, and entertainment. Amenities up to a 30 minute walk away are evaluated with closer amenities receiving more weight. Walk Score is a popular tool among realtors and developers, and is commonly known and cited by Minnesota Housing partners. The Agency evaluated the tool for comprehensiveness and found it a reliable measure of walkability for addresses across the state.

A series of four priorities are also proposed to be added for Metro area developments within ¼ mile of LRT, BRT, and commuter rail stations, under the heading of Transit Oriented Development, which prioritize those developments that fully capitalize on their transit-proximate locations by minimizing space devoted to parking, maximizing the number of units that can be built near the station, and ensuring accessible connections are made from the housing to the station. Staff proposes to increase the number of points available for transit proximate locations in Greater Minnesota in order to balance this increase in points in the Metro.

Overall, these revisions result in an increase in the maximum point potential from 5 to 11 points in both the Metro area and Greater Minnesota.

Refer to the Location Efficiency attachment where the maps and census tract lists identify those areas meeting components of this scoring criterion. An interactive tool will be made available to assist applicants and staff in determining the location of areas eligible for points, through the community profiles.

Current
Points will be awarded for Transit Oriented Developments or developments that promote Access to Transit.

Metropolitan Area:
To receive 5 Points for Transit Oriented Development in the Metropolitan area, a development must be:

☐ Located within one half mile of a completed or planned LRT, BRT, or commuter rail station

To receive 4 Points for proximity to public transportation in the Metropolitan area, a development must be:

☐ Located within one quarter mile of a fixed route stop on Metro Transit’s Hi-Frequency Network

To receive 2 Points for proximity to public transportation in the Metropolitan area, a development must be:

☐ Located within one quarter mile of a high service public transportation fixed route stop; or

☐ Located within one half mile of an express bus route stop; or

☐ Located within one half mile of a park and ride; or

Greater Minnesota:
To receive 5 points for promoting access to transit, a development in Greater Minnesota must be:

☐ Located within one quarter mile of a public transportation fixed route stop; or

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts, **AND** meets **BOTH** of the following:

☐ **The proposed housing is within one half mile of at least four different types of facilities listed below.**

Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; and

☐ **The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.**

Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.

To receive 2 Points for promoting access to transit, a development in Greater Minnesota must be:

☐ Located between one quarter mile and one half mile of a public transportation fixed route stop; or

☐ Located within one and one half mile of a park and ride served by fixed route public transportation; or

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts, **AND** meets one of the following:

☐ **The proposed housing is within one mile of at least four different types of facilities listed below.**

Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; or

☐ **The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.**

Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.

*Minnesota Department of Transportation defines dial-a-ride as: *"A demand-responsive service in which the vehicle is requested by telephone and vehicle routing is determined as requests are received. Origin-to-destination service with some intermediate stops is offered. Dial-A-Ride is a* *version of the taxicab using larger vehicles for short-to-medium distance trips in lower-density subregions".*

Proposed
Points will be awarded for ~~T~~transit ~~O~~oriented ~~D~~developments or developments that promote location efficiency based on a combination of ~~A~~access to ~~Transit~~ transportation and walkability.

Twin Cities Metropolitan Area:
In the Twin Cities Metropolitan area, points will be awarded for a combination of three areas: access to transit, walkability and transit oriented development.

1) Access to Transit:
To receive points for ~~Transit Oriented Development~~ access to transit in the Metropolitan area, a development must be:

☐ Located within one half mile of a completed or planned LRT, BRT, or commuter rail station ***– 5 points***; OR
☐ Located within one quarter mile of a fixed route stop on Metro Transit's Hi-Frequency Network ***– 4 points***; OR
☐ Located within one quarter mile of a high service public transportation fixed route stop ***– 2 points***; OR
☐ Located within one half mile of an express bus route stop ***– 2 points***; OR
☐ Located within one half mile of a park and ride ***– 2 points***~~; or~~

2) Walkability:
To receive points for walkability, a development must receive an award of points for Access to Transit above, and be:

☐ Located in an area with a walk score of 70 or more according to www.walkscore.com** - 2 points
☐ Located in an area with a walk score between 50 and 69 according to www.walkscore.com** - 1 point

3) Transit Oriented Development:
To receive up to 4 points for transit oriented development, a development must beLocated within one quarter mile of a completed or planned LRT, BRT, or commuter rail station, and one point for each of the following:

☐ **Parking:** Parking for residential units or visitors is not more than the smallest allowable parking minimum under local zoning requirements. If no residential parking or visitor parking is required under local zoning, no more than 0.2 visitor parking spaces per residential unit are provided. ***– 1 point***
☐ **Building Orientation and Connections**: Currently existing walkable or bikeable connections to station area via sidewalk or trail or funding secured to create such connections, and at least one accessible building entrance oriented toward such connections, and parking is not situated between building and station area. ***– 1 point***

☐ **Density**: Site density at the maximum allowable density under the local comprehensive plan. ***– 1 point***

☐ **Alternative Means**: Car sharing (Where one or more passenger automobiles are provided for common use by residents), bike storage, shared parking arrangements with adjacent property owners, etc. which results in a reduction in the local minimum parking requirement, and parking for residential units in not more than the local minimum parking requirement, or if no residential or visitor parking is required under local zoning, no more than 0.2 parking spaces per residential unit are provided. ***– 1 point***

Greater Minnesota: In Greater Minnesota, location efficiency points will be awarded in a combination of access to transit and walkability in areas with fixed route transit service, and a combination of dial-a-ride, walkability, and access to jobs in areas without fixed route transit service.

A. For areas with fixed route transit service:

1) Access to Transit:

To receive points for access to transit, a development in Greater Minnesota must be:

☐ Located within one quarter mile of a public transportation fixed route stop. ***– 9 points***

☐ Located within one quarter mile and one half mile of a public transportation fixed route stop ***– 5 points***; or

☐ Located less than one half mile of an express bus route stop or park and ride lot ***– 5 points***

2) Walkability:

To receive points for walkability, a development must receive an award of points for Access to Transit above, and be:

☐ Located in an area with a walk score of 70 or more according to www.walkscore.com** ***- 2 points***

☐ Located in an area with a walk score between 50 and 69 according to www.walkscore.com** ***- 1 point***

B. For areas without fixed route transit service:

To receive six points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts, **AND** meets **BOTH** of the following:

☐ ~~**The proposed housing is within one half mile of at least four different types of facilities listed below.**~~

~~Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental~~

~~office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; and~~

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

~~Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.~~

☐ The proposed housing is located in an area with a **walk score of 70 or more** according to www.walkscore.com**

To receive five points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts; **AND meets BOTH of the following:**

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

☐ The proposed housing is located in an area with a **walk score between 50 and 69** according to www.walkscore.com**

To receive four points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts; **AND meets ONE of the following:**

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

☐ The proposed housing is located in an area with a **walk score of 70 or more** according to www.walkscore.com**

To receive three points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts; **AND meets ONE of the following:**

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

☐ The proposed housing is located in an area with a **walk score between 50 and 69** according to www.walkscore.com**

~~To receive 2 Points for promoting access to transit, a development in Greater Minnesota must be:~~

~~☐ Located between one quarter mile and one half mile of a public transportation fixed route stop; or~~

☐ ~~Located within one and one half mile of a park and ride served by fixed route public transportation; or~~

☐ ~~Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts, **AND** meets one of the following:~~

- ☐ ~~**The proposed housing is within one mile of at least four different types of facilities listed below.**~~
  ~~Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; or~~
- ☐ ~~**The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.**~~
  ~~Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.~~

* Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments. Minnesota Department of Transportation defines dial-a-ride as: *"A demand-responsive service in which the vehicle is requested by telephone and vehicle routing is determined as requests are received. Origin-to-destination service with some intermediate stops is offered. Dial-A-Ride is a version of the taxicab using larger vehicles for short-to-medium distance trips in lower-density subregions".*

Public Comments Summary (*staff responses italicized):*

- **The Agency received two letters of support**.
- **The increase in points might skew developments away from sites adjacent to good schools and employment, particularly in suburbs. The maximum number of points should be less than those available for economic integration.**
  Upon further review, the maximum number of points for location efficiency will be revised from 11 to 9 points. The maximum points for Economic Integration will be raised to 9 points to match the priority level placed upon Location Efficiency.
- **City zoning may be not require any parking in an area, but the marketability of a unit may require it, as may lenders and syndicators.**
  To address this issue, and to address the balance with Economic Integration, points for Transit Oriented Design components will be reduced from 4 to 2 points. In the original draft, a development had to meet all four design components to get all 4 points. In the revised version, a development will receive 1 point for achieving any one of the TOD components and 2 points for achieving any two of the four components. If a development has to provide parking above the city minimum in order to be marketable and meet lender or syndicator requirements, it can still receive the 2 maximum points for TOD design if it includes two of the other components.

- **Walk Score doesn't work well in suburban areas. The Walk Score thresholds proposed don't recognize differences in development patterns within suburban and urban areas, so suburbs won't be able to meet the proposed thresholds and receive the associated points.**
  Minnesota Housing aligned its thresholds for receiving points with the standards established in the Walk Score tool itself. Communities with a score less than 50 are "car dependant", communities with a score between 50 and 69 are "somewhat walkable", and communities with a score 70 or above are "very walkable". If development patterns in the suburbs result in Walk Score being less than 50, they are not walkable communities based on the Walk Score's standards. The purpose of this criterion is to create location-efficienct developments that are walkable.
- **Eliminate the Walk Score as eligible locations mirror those eligible for access to transit.**
  Access to transit and Walk Score measure two different aspects of location efficiency – proximity to a transit stop versus the walking distance to various type of amenities. If a development is both accessible to transit and has a high walk score, it is in a very locational-efficient area, which is what we want to encourage.
- **There are data quality issues with Walk Score, for example, a newer 2012 address in Forest Lake brought the map to a site near (but not at) the actual site, and returned a different score than an adjacent property, where the address was recognized.**
  We reviewed the national literature that has evaluated the Walk Score tool, and the consensus is that Walk Score is a good and informative tool. In addition, we assessed the Walk Scores of the 2014 tax credit applications that came in during 2013, and feel that the Walk Score results were meaningful and helpful in assessing the location efficiency of the proposed developments. With any tool, there will be imperfections and anomalies, but the benefits of the Walk Score outweigh the concerns. Minnesota Housing staff contacted the Washington Country HRA about the property in Forest Lake and found that the Walk Score varied between 6 and 9, which is a small difference. Furthermore, both scores are very low, indicating a location that is car dependent. Finally, the QAP is being revised to clarify that if applicants are finding that the Walk Score tool is not accurately locating their development, they should contact Minnesota Housing for assistance so that an accurate score can be determined.
- **The transit map appears to eliminate many suburban areas that have positive attributes for affordable housing. Revise the map to ensure affordable housing may occur in areas with good schools or job opportunities.**
  Refer to the map in the Methodology and Data attachment titled "Combined Geographic Priority Point Potential, 2016 QAP: Twin Cities". In the QAP, Minnesota Housing is addressing and balancing multiple policy goals, including providing access to transit, jobs, and good schools. When assessing overall incentives, it is misleading to examine one of the geographic-based criteria in isolation. It is best to look at the combination of the five geographic-based scoring criteria together. As the map shows, these criteria in combination are encouraging housing development in a broad range of communities that provide a broad range of opportunities.
- **Any application should be able to claim the four Transit Oriented Development points, not just those with access to LRT, BRT, or commuter rail.**

The purpose of this priority is to encourage transit oriented development (TOD) near the most desirable types of transit (LRT, BRT, and commuter rail), which TOD has typically focused on. The design elements that help orient a project to a transit station are not relevant in the absence of a nearby transit station.

- **In suburban locations, it is difficult to find sites within ¼ mile or ½ mile of transit options.**

  The purpose of this scoring criterion is to encourage the development of affordable housing on those sites that can be found within ¼ and ½ mile of transit options. These sites should be given a priority.
- **There are no LRT, BRT, commuter rail, or Hi-Frequency Transit stops in Washington County, which places it at a point disadvantage and creates a disincentive to locate affordable housing in the suburbs. There are sites where LRT, BRT, and commuter rail stations are being evaluated in Washington County, and the QAP should encourage development at these sites to accommodate TOD.**

  The purpose of this selection criterion is to encourage affordable housing in the most location-efficient areas. While Washington County is less locationally efficient than other areas of the Metro, developments in Washington County can still score high and be competitive if they meet other priorities outlined in the QAP, especially given that a number of areas in the County (e.g. Cottage Grove, Woodbury, and Lake Elmo) score relatively high when the five geographic-based QAP scoring criteria, including location efficiency, are combined. See the map titled "Combined Geographic Priority Point Potential, 2016 QAP: Twin Cities" in the Methodology and Data attachment of this report. The QAP will also be revised to lower the location-efficiency points from 11 to 9. In addition, last year, for the 2014/2015 QAP, Minnesota Housing revised the criteria so that planned transitways in addition to in-progress transitways would be eligible for points. As the methodology memo for location efficiency (see Methodology and Data attachment) states: access to transit scoring "includes planned stations on future transitways that are in advanced design or under construction. To be considered in advanced design, transitways need to meet the following criteria: issuance of a draft EIS, station area planning underway, and adoption by the Metropolitan Council Transportation Policy Plan." If the potential stations in Washington County reach the advanced design status, they will be eligible for these points. Finally, developers may also apply directly to Washington County as a suballocator of tax credits for the State of Minnesota, and be subject to the priorities of Washington County's QAP.
- **There is some tension between the transit category and cost containment, given the high cost of land along transit corridors.**

  Minnesota Housing is aware of this tension, and has designed the QAP so that location efficiency is given greater priority than the points provided for meeting the cost containment thresholds. Given this, it would not make sense to sacrifice location efficiency points to receive the cost containment points. However, if a developer can find creative ways to contain costs with a location-efficient project, they will have an even more competitive application.

Proposed Change Resulting from Public Comment (changes bolded and underlined):

Revise Location Efficiency methodology memo (See Methodology and Data attachment) to clarify that if applicants are finding that the Walk Score tool is not accurately locating their development, they should contact Minnesota Housing for assistance so that an accurate score can be determined.

Revise so that maximum score is 9 rather than 11, and maximum score for TOD criteria for Metro developments is 2 rather than 4:

Points will be awarded for ~~T~~transit ~~O~~oriented ~~D~~developments or developments that promote location efficiency based on a combination of ~~A~~access to ~~Transit~~ transportation and walkability.

Twin Cities Metropolitan Area:
In the Twin Cities Metropolitan area, points will be awarded for a combination of three areas: access to transit, walkability and transit oriented development.

4) Access to Transit:
To receive points for ~~Transit Oriented Development~~ access to transit in the Metropolitan area, a development must be:

☐ Located within one half mile of a completed or planned LRT, BRT, or commuter rail station ***– 5 points***; OR
☐ Located within one quarter mile of a fixed route stop on Metro Transit's Hi-Frequency Network ***– 4 points***; OR
☐ Located within one quarter mile of a high service public transportation fixed route stop ***– 2 points***; OR
☐ Located within one half mile of an express bus route stop ***– 2 points***; OR
☐ Located within one half mile of a park and ride ***– 2 points***~~; or~~

5) Walkability:
To receive points for walkability, a development must receive an award of points for Access to Transit above, and be:

☐ Located in an area with a walk score of 70 or more according to www.walkscore.com** - 2 points
☐ Located in an area with a walk score between 50 and 69 according to www.walkscore.com** - 1 point

6) Transit Oriented Development:
To receive up to**2** ~~4~~ points for transit oriented development, a development must be located within one quarter mile of a completed or planned LRT, BRT, or commuter rail station~~,~~**. One point for a development which meets one of the following, and two points for a development which meets two or more of the following:** ~~**and one point for each of the following:**~~

☐ **Parking:** Parking for residential units or visitors is not more than the smallest allowable parking minimum under local zoning requirements. If no residential parking or visitor parking is required under local zoning, no more than 0.2 visitor parking spaces per residential unit are provided. ~~***– 1 point***~~

☐ **Building Orientation and Connections**: Currently existing walkable or bikeable connections to station area via sidewalk or trail or funding secured to create such connections, and at least one accessible building entrance oriented toward such connections, and parking is not situated between building and station area. ***~~– 1 point~~***

☐ **Density**: Site density at the maximum allowable density under the local comprehensive plan. ***~~– 1 point~~***

☐ **Alternative Means**: Car sharing (Where one or more passenger automobiles are provided for common use by residents), bike storage, shared parking arrangements with adjacent property owners, etc. which results in a reduction in the local minimum parking requirement, and parking for residential units in not more than the local minimum parking requirement, or if no residential or visitor parking is required under local zoning, no more than 0.2 parking spaces per residential unit are provided. ***– ~~1 point~~***

Greater Minnesota: In Greater Minnesota, location efficiency points will be awarded in a combination of access to transit and walkability in areas with fixed route transit service, and a combination of dial-a-ride, walkability, and access to jobs in areas without fixed route transit service.

A. For areas with fixed route transit service:

3) Access to Transit:

To receive points for access to transit, a development in Greater Minnesota must be:

☐ Located within one quarter mile of a public transportation fixed route stop. ***– ~~9~~7 points***

☐ Located within one quarter mile and one half mile of a public transportation fixed route stop ***– ~~5~~4 points***; or

☐ Located less than one half mile of an express bus route stop or park and ride lot ***– ~~5~~4 points***

4) Walkability:

To receive points for walkability, a development must receive an award of points for Access to Transit above, and be:

☐ Located in an area with a walk score of 70 or more according to www.walkscore.com** ***- 2 points***

☐ Located in an area with a walk score between 50 and 69 according to www.walkscore.com** ***- 1 point***

B. For areas without fixed route transit service:

To receive ~~six~~**four** points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts, **AND** meets **BOTH** of the following:

☐ ~~**The proposed housing is within one half mile of at least four different types of facilities listed below.**~~

~~Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; and~~

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

~~Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.~~

☐ The proposed housing is located in an area with a **walk score of 70 or more** according to www.walkscore.com**

To receive ~~**five**~~**three** points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts; **AND meets BOTH of the following:**

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

☐ The proposed housing is located in an area with a **walk score between 50 and 69** according to www.walkscore.com**

To receive ~~**four**~~**two** points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts; **AND meets ONE of the following:**

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

☐ The proposed housing is located in an area with a **walk score of 70 or more** according to www.walkscore.com**

To receive ~~**three**~~**one** points for location efficiency, a development must be:

☐ Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts; **AND meets ONE of the following:**

☐ The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.

☐ The proposed housing is located in an area with a **walk score between 50 and 69** according to www.walkscore.com**

~~To receive 2 Points for promoting access to transit, a development in Greater Minnesota must be:~~

- ☐ ~~Located between one quarter mile and one half mile of a public transportation fixed route stop; or~~
- ☐ ~~Located within one and one half mile of a park and ride served by fixed route public transportation; or~~
- ☐ ~~Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs for urban census tracts, or within 5 miles of 5,000 low and moderate wage jobs for rural census tracts, **AND** meets one of the following:~~
  - ☐ ~~**The proposed housing is within one mile of at least four different types of facilities listed below.**~~

    ~~Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; or~~
  - ☐ ~~**The proposed housing has access to demand response/dial-a-ride* services during standard workday hours.**~~

    ~~Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.~~

* Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments. Minnesota Department of Transportation defines dial-a-ride as: *"A demand-responsive service in which the vehicle is requested by telephone and vehicle routing is determined as requests are received. Origin-to-destination service with some intermediate stops is offered. Dial-A-Ride is a version of the taxicab using larger vehicles for short-to-medium distance trips in lower-density subregions".*

8. Clarify Cost Containment scoring criterion.

New in the 2014/2015 QAP, Minnesota Housing added a Cost Containment selection priority. As part of this priority, the Agency stated that for an applicant claiming and being awarded points, failure to keep project costs under the selected cost threshold will be considered an unacceptable practice and will result in negative points in the applicant's next new tax credit submission equal to points awarded in this scoring criterion. Staff proposes clarifying language to indicate that the negative point penalty will apply to all of the applicant's tax credit submissions in the next funding round, in the case multiple applications are submitted.

Proposed
Four points will be available to the 50% of developments with the lowest costs within each development type/location group (subject to the methodology described in Revised Cost Containment Methodology. Applicants may claim these points and Minnesota Housing will make point reductions following its review of costs for all applications in the funding round.

Applications seeking 4% tax credits for use in conjunction with tax exempt bonds are not eligible to claim points through this Cost Containment priority. Only applications seeking tax credits through Minnesota Housing's 9% Competitive application process for tax credits are eligible to claim points through this priority.

NOTE: Proposals that believe they have contained their costs should select these points.

Only proposals that claim cost containment points on the self-scoring worksheet and are awarded points through the process described above will receive cost containment points.

CAUTION: If a project receives points under this criterion, failure to keep project costs under the applicable cost threshold will be considered an unacceptable practice and result in negative 4 points being awarded in all of the applicant's ~~next~~ tax credit submissions in the next funding round in which submissions are made.

If developers are concerned about their costs and keeping them within the "applicable cost threshold," they should not claim the cost-containment points.

Public Comments Summary (*staff responses italicized):*

- **The 4 point penalty is too severe for projects that receive the cost containment points but don't keep their actual costs below the applicable threshold. Applications are submitted at least a year before closing, with no ability to predict construction costs in the future. Projects with unpredictable cost increases should be considered differently in terms of the penalty than projects with costs that are poorly managed.**
  Minnesota Housing expects that developers budget conservatively for what construction costs will be given their experience with the market, expectations for future market conditions, and their particular project, and this forecasting is something developers are already doing along the way in a project life, which often spans several years. We want to incent those developers that are able to budget well and absorb market shocks. Developers that feel this is too large a risk should not claim these points. Minnesota Housing will evaluate the penalty once the first round of projects to claim these cost containment points progress, and we have data on whether projects are able to meet their thresholds, and if not, why.
- **If philanthropic partners want to pay for a certain element (e.g. solar), a developer should be allowed to take that opportunity, achieve the benefits to the development, and not have the costs be included in the cost containment thresholds.**
  To meet the growing need for affordable rental housing in Minnesota, the State needs to produce as many high-quality affordable rental units as possible, which entails getting the biggest return from all available resources (including philanthropic sources) and containing

overall costs. Minnesota Housing acknowledges that the current cost containment methodology focuses on upfront costs and does not fully address life-cycle costs and other benefits. As a result, the Agency very consciously awards only 4 points for cost containment, which is relatively few, so that cost-containment is a factor in project development and selection, but not the primary driver.

- **Assumption of existing deferred debt for acquisition/rehabilitation projects should be excluded from Total Development Costs (TDC) as it contributes significantly to TDC yet doesn't use limited affordable housing cash resources.**
  Though assuming debt does not use new affordable housing resources, it prevents existing debt from being paid back and recycled, and thereby does limit affordable housing cash resources, in addition to potential use of more acquisition tax credits. Assumed debt is part of a valid purchase price that must be supported by fair market value, and purchase price should not be greater than fair market value simply because of the presence of assumed debt.
- **As an aggregate number, TDC is too simple. There are 4 to 6 subcategories that have unique components that would be more important to assess. The Agency should not use a point system for cost containment but find industry-wide ideas that will proactively and strategically lower costs that don't add value (i.e. holding costs, financing fees).**
  Minnesota Housing agrees that it is important to assess subcategories of cost (not just aggregate TDC) and find industry-wide ideas that will proactively and strategically address them. The purpose of the MN Challenge to Lower the Cost of Affordable Housing that Minnesota Housing is co-sponsoring is to identify and address those types of costs. The Agency is hopeful that this idea competition and the subsequent implementation will have a measurable impact. However, reducing aggregate TDC per unit is also important. As stated above, to meet the growing need for affordable rental housing in Minnesota, the state needs to contain overall costs and produce as many high-quality affordable rental units as possible. To provide developers an incentive to meet this goal, the QAP includes cost containment points. The pointing structure in the QAP is the mechanism through which the Minnesota Housing provides developers incentives to meet the State's goals for the tax credit program.
- **Minnesota Housing staff should assess costs as part of the underwriting process rather than through this complicated scoring criterion.**
  As part of the underwriting and project evaluation process, staff does assess each project for cost reasonableness using professional judgment and the Agency's predictive cost model. The cost containment criterion and process goes beyond assessing cost reasonableness by giving developers an incentive to find ways to minimize costs while maintaining the quality of the housing being developed. After spending a year and a half testing alternative cost containment methodologies with the development community, the Agency found this approach to be the simplest approach that is fair, objective, and transparent and that met the need to contain costs. In addition, in the first year that the cost containment criterion was used, it worked as intended without much confusion. Minnesota Housing will continue to monitor the impact of the criterion.

- **The Agency should list the developers that receive the cost containment points, their TDC per unit at selection, and their final TDC per unit so that it is clear that projects are being monitored.**
  The Agency monitors all conditions of selection at reservation, carryover, and 8609. Minnesota Housing has not in the past found it necessary to publish information on whether developments comply with the various conditions of selection, and feels that the expectation that projects will be monitored for compliance with promises made at selection is clear. Minnesota Housing does not believe there is a particular lack of clarity around this issue for cost containment, especially in light of the fact that there is a negative points penalty for noncompliance published for cost containment. However, the Agency is reaffirming our intent to monitor compliance with cost containment scoring.
- **Minnesota Housing should publicize how well the cost containment priority was implemented last round.**
  The Agency has taken the opportunity to discuss how well this new scoring criterion was implemented in the first year – including the kickoff event for the MN Challenge to Lower the Cost of Affordable Housing and a meeting of the Minnesota Housing Partnership's Investors Council.

Proposed Change Resulting from Public Comment (changes bolded and underlined): No proposed change.

9. Replace the Special Populations priority under the Household Targeting scoring criterion with a Universal Design scoring criterion.

Minnesota's Olmstead Plan, in keeping with guidance from the U.S. Department of Justice, promotes integrated rather than institutional housing opportunities for households with disabilities. In order for individuals with disabilities to have access to the range of housing options that all Minnesotans have, rather than being limited to projects specifically designated for people with disabilities, staff proposes to replace the Special Populations scoring category with a Universal Design scoring category. Encouraging Universal Design in all tax credit projects, rather than just those projects that will specifically set aside a large portion of units for individuals with disabilities, will encourage more integrated settings and a broader range of choice in housing options for individuals with disabilities. Further, encouraging universal design in units with deeper rent restrictions, federal assistance, or other rental assistance is expected to allow targeting of similar populations as targeted under the Special Populations scoring criterion.

Current

☐ **Special Populations** - At least 25 percent of the total units are set aside and rented to special populations* – ***10 points***

☐ **Special Populations** - At least 10 percent of the total units are set aside and rented to special populations* – ***3 points***

***Special Populations** – Projects that are not restricted to persons of a particular age group and in which, for the term of the extended use period (Declaration of Land Use Restrictive Covenants), a percentage of the units are set aside and rented to persons with the following disabilities:
(a) a serious and persistent mental illness as defined in Minn. Stat. § 245.462, subdivision 20, paragraph (c);
(b) a developmental disability as defined in United States Code, Title 42, Section 6001, paragraph (5), as amended;
(c) assessed as drug dependent as defined in Minn. Stat. § 254A.02, subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minn. Stat. § 254A.02, Subdivision 2.
(d) a brain injury as defined in Minn. Stat. § 256B.093, Subdivision 4, paragraph (a); or
(e) permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the project are accessible as provided under Minnesota Rules Chapter 1341.

Proposed
Definition: A unit that includes all Minimum Essential Universal Design Features below, along with 8 Optional Features for units in a new construction or adaptive re-use project, and 4 Optional Features for units in a rehabilitation project. Type A accessible units (as referenced in Minnesota Housing's Rental Housing Design and Construction Standards) are also considered to meet the definition of a Universal Design unit for the purposes of this scoring category.

☐ An elevator building with 100% of HTC units meeting the definition of a Universal Design unit, ***- 5 points*** OR

☐ A non-elevator building with at least 20% of total HTC units (rounded up to the nearest whole number) meeting the definition of a Universal Design unit, ***- 5 points*** OR

☐ A project that is eligible for both 5 points under the Universal Design scoring category **AND** either 3 points under the Serves Lowest Income Tenants/Rent Reduction scoring category for Option 4, **OR** at least 6 points under the Rental Assistance scoring category, **OR** at least 25 points under the Preservation scoring category. – ***10 points***

Minimum Essential Universal Design Features
- At least one bedroom (or space that can be converted to a bedroom without changing door locations) on an accessible level and connected to an accessible route.
- 42" minimum hallways
- At least one three quarter bathroom on an accessible level with five foot open radius
- Lever handles on all doors and fixtures
- Provide wall blocking in all tub and shower areas
- Door thresholds flush with the floor with maximum threshold height of ½" beveled or ¼" square edged
- Kitchen and laundry appliances have parallel approach clear floor space with all controls within maximum height of 48". Range controls must have lockout feature. Stackable laundry units with a maximum reach range of 54" will meet this requirement
- Kitchen sink area 30" wide minimum with cabinet panel concealing piping or a removable base cabinet

- All common spaces and amenities provided in the housing development located on an accessible route
- Deck or patio spaces have a step-less transition from dwelling unit meeting door threshold requirements. Decking gaps shall be no greater than ¼”
- Universal Design features are incorporated in an aesthetic, marketable, non-institutional manner

Optional Features

- High contrast finish selections that include floor to wall transitions, top treads of stairs, counters and adjacent flooring and walls
- Single lever, hands free or touch faucets
- At least 50% of kitchen storage space within reach range. This can include pull-out shelves, full extension glide drawers or pantry design
- A variety of work surface heights in kitchen and one five foot open radius
- Roll under vanity or sink in twenty five percent of Universal Design qualifying units, rounded up to the nearest whole number
- Cabinet hardware with “D” type pull handles or operation for people with limited dexterity
- Zero threshold shower or transfer space at tub is provided for minimum of half the qualifying Universal Design units, rounded up to the nearest whole number
- Slip resistant flooring in kitchens and baths
- Toilets provided with seats 17” – 19” from the floor
- Windows are provided with maximum sill height of 36”, parallel clear floor space and locks/operating mechanism within 48” and easily operable with one hand. Sidelight or view window at main entry door from a seated position
- Thermostats designed for visually impaired or ability to monitor and operate with electronic device such as a tablet computer
- Closet storage is adjustable in a majority of the closets provided
- Audio/Visual Doorbell
- Covered entry with adequate lighting and interior or exterior bench space for parcels or groceries
- Lettering and numbering with all characters and symbols contrasting with their background
- Braille characters included to the left on all interior signage
- Parking spaces provided for at least fifty percent of Universal Design qualifying units, rounded up to the nearest whole number, with a five foot wide adjacent auxiliary space connected to accessible route
- Residential elevator or chair lift space structured for future use in multiple level homes
- Enterprise Green Communities Model Specifications are used for applicable sections for the Universal Design qualifying units
- On-site physical activity is provided for in a fitness area, biking or walking path or community garden
- Other modifications which make units livable for disabled populations, as demonstrated by credible evidence provided in the application, at the sole discretion of Minnesota Housing

Public Comments Summary (*staff responses italicized*):

- **The Agency received two letters supporting the efforts promoting integration and universal design.**
- **The proposed Universal Design criteria will be difficult for projects to meet, especially projects serving families, and the cost impacts will conflict with the Cost Containment priority, and should be examined.**
  In developing the criteria Minnesota Housing attempted to include as many low cost or cost neutral options as possible. The Agency has seen some developers beginning to include many of these elements due to market demand, and has examined the cost impacts. In recognition that universal design will be more difficult to incorporate into non-elevator buildings, Universal Design points were proposed for projects in non-elevator buildings where 20% of units meet the definition of universally designed units, rather than 100%, as required for elevator buildings. Minnesota Housing acknowledges that it is possible that this difficulty may adversely impact family developments, and will decrease the required percentage for non-elevator buildings to 10%. In addition, while the expectation is that it may not be feasible for all applicants to include these design elements, the Agency will decrease associated points to ensure this category has less impact on competitiveness until we have more experience with the category and the effect it has on costs and whether certain project types are disadvantaged. While there may be some cost impact, this is true of many of the policy priorities included in the QAP, and if many applicants begin to incorporate Universal Design, the Cost Containment thresholds will rise accordingly.
- **The proposed Universal Design criteria will be difficult for rehab projects to meet.**
  Minnesota Housing agrees that the criteria proposed will be more difficult to meet, and that some less restrictive modifications are possible that would still allow units to be livable for persons with disabilities and be more achievable for rehab projects.
- **Getting rid of special populations and replacing with Universal Design will mean that covered populations are no longer targeted (except those with physical disabilities). Keep special populations, modifying to be more pro-integration, and modify universal design to more explicitly include other special populations than those with physical disabilities.**
  We included consideration of low rents and rental assistance under universal design to get at some of the barriers faced by special populations, but acknowledge the concerns raised about removing the incentive for serving populations other than those with physical disabilities. While we acknowledge the concerns raised, in practice, very few applicants over the last several years have claimed points under special populations, and it seems likely that there is some reason for this outside the pointing incentive structure, such as a lack of rental assistance and appropriate partnerships. Minnesota Housing will keep special populations for the 2016 QAP, with revised targeting to be more in line with integration principles, and reevaluate the need for, and effectiveness of, the category for the 2017 QAP. Minnesota Housing incorporated "other modifications which make units livable for disabled populations" to allow for applicants planning to serve disabled populations other than those with limited mobility, such as those with mental illness or visual or hearing impairment, to allow applicants to incorporate design elements which best meet the needs of their particular targeted population. Minnesota Housing expects that applicants working with these populations have better knowledge of appropriate design modifications.
- **Not 100% of units will need accessibility, so it may be unwise to fund universal design improvements on 100% of units.**

The goal of incenting universal design isn't solely to make units accessible for people permanently in wheelchairs, but to make units more usable for everyone, with or without disabilities, including people who wish to age in place. Beyond these benefits, producing housing that is 100% universally-designed will allow for a more disability-blind approach than would carving out a set few specially designated units.

- **Minnesota Housing should provide subsidy for individuals.**
  Minnesota Housing provides substantial resources toward subsidy for individuals under existing rental assistance contracts. In addition, Minnesota Housing expects to provide funding for 95 new units of site-based rental assistance through the HUD 811 program for people with disabilities.
- **Minnesota Housing should ensure clients are aware of open units and are maximizing available housing benefits.**
  Minnesota Housing works with each supportive housing provider to ensure that the service provider and owner have a plan for maximizing available housing benefits and resources for residents. More broadly, one of the key objectives contained in the "Heading Home: Minnesota's Plan to Prevent and End Homelessness" report is to develop a statewide coordinated assessment process to ensure people experiencing homelessness are connected to appropriate services, and Minnesota Housing is working with stakeholders across the state to develop this. Minnesota Housing also provides funding to support the development of resources to provide information on available affordable and supportive housing units, such as recent initiatives by HousingLink.
- **A single site/population focused property with supports is not an undesirable structure.**
  Minnesota Housing is intending to align the QAP with the Olmstead Plan and current recommended practices for creating housing opportunities for people with disabilities. While Minnesota Housing will not preclude single-site models, the intent of this category is to incentivize creation of housing opportunities for people with disabilities in integrated settings. This provides another housing choice in the array of housing opportunities.
- **Need higher prioritization of lower incomes to better serve special populations.**
  While Minnesota Housing only addresses rent level in the Universal Design category, in practice, housing with rents affordable at 30% of area median income are also affordable to households with incomes at 30% of area median income. In addition, housing with rental assistance, which is also prioritized in this scoring category, allows very low income households to access housing at a much lower rent level than would be feasible without the assistance, while paying only 30% of income toward rent. The average income of households living in properties in Minnesota Housing's Section 8 portfolio is between $11,000 and $12,000.

Proposed Change Resulting from Public Comment (changes bolded and underlined):

Keep Special Populations under the Household Targeting scoring criterion; modify as follows:

☐ ~~**Special Populations** - At least 25 percent of the total units are set aside and rented to special populations* – ***10 points***~~

☐ **Special Populations** - At least 10 percent **and up to 25 percent** of the total units are set aside and **targeted**~~**rented**~~ to special populations* – ***5 points***~~***3 points***~~

***Special Populations** – Projects that are not restricted to persons of a particular age group and in which, for the term of the extended use period (Declaration of Land Use Restrictive Covenants), a percentage of the units are set aside and rented to persons with the following disabilities:

- a serious and persistent mental illness as defined in Minn. Stat. § 245.462, subdivision 20, paragraph (c);
- a developmental disability as defined in United States Code, Title 42, Section 6001, paragraph (5), as amended;
- assessed as drug dependent as defined in Minn. Stat. § 254A.02, subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minn. Stat. § 254A.02, Subdivision 2.
- a brain injury as defined in Minn. Stat. § 256B.093, Subdivision 4, paragraph (a); or
- permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the project are accessible as provided under Minnesota Rules Chapter 1341.

Revise Universal Design scoring criterion as follows:

Definition: A unit that includes all Minimum Essential Universal Design Features below, along with 8 Optional Features for units in a new construction or adaptive re-use project, and 4 Optional Features for units in a rehabilitation project. Type A accessible units (as referenced in Minnesota Housing's Rental Housing Design and Construction Standards) are also considered to meet the definition of a Universal Design unit for the purposes of this scoring category.

☐ An elevator building with 100% of HTC units meeting the definition of a Universal Design unit, **-** ***~~5~~3 points*** OR

☐ A non-elevator building with at least **~~2~~10**% of total HTC units (rounded up to the nearest whole number) meeting the definition of a Universal Design unit, ***- ~~5~~3 points*** OR

☐ A project that is eligible for both **3** points under the Universal Design scoring category **AND** either 3 points under the Serves Lowest Income Tenants/Rent Reduction scoring category for Option 4, **OR** at least 6 points under the Rental Assistance scoring category, **OR** at least 25 points under the Preservation scoring category. – ***~~10~~5 points***

Minimum Essential Universal Design Features

- At least one bedroom ~~(~~or space that can be converted to a bedroom **(**without changing door locations **for new construction or adaptive re-use**) on an accessible level and connected to an accessible route
- 42" minimum hallways **for new construction or adaptive re-use**
- At least one three quarter bathroom on an accessible level, with five foot open radius **for new construction or adaptive re-use, and clear floor space of 30" x 48" for rehabilitation**
- Lever handles on all doors and fixtures

- Provide wall blocking in all tub and shower areas **for new construction or adaptive re-use, and for rehabilitation if showers are being replaced**
- Door thresholds flush with the floor with maximum threshold height of ½" beveled or ¼" square edged
- Kitchen and laundry appliances have parallel approach clear floor space with all controls within maximum height of 48". Range controls must have lockout feature. Stackable laundry units with a maximum reach range of 54" will meet this requirement
- Kitchen sink area 30" wide minimum with cabinet panel concealing piping or a removable base cabinet
- All common spaces and amenities provided in the housing development located on an accessible route
- **For new construction or adaptive re-use,** ~~D~~deck or patio spaces have a step-less transition from dwelling unit meeting door threshold requirements~~.~~**, with** decking gaps ~~shall be~~ no greater than ¼"
- Universal Design features are incorporated in an aesthetic, marketable, non-institutional manner

Optional Features

- High contrast finish selections that include floor to wall transitions, top treads of stairs, counters and adjacent flooring and walls
- Single lever, hands free or touch faucets
- At least 50% of kitchen storage space within reach range. This can include pull-out shelves, full extension glide drawers or pantry design
- A variety of work surface heights in kitchen and one five foot open radius
- Roll under vanity or sink in twenty five percent of Universal Design qualifying units, rounded up to the nearest whole number
- Cabinet hardware with "D" type pull handles or operation for people with limited dexterity
- Zero threshold shower or transfer space at tub is provided for minimum of half the qualifying Universal Design units, rounded up to the nearest whole number
- Slip resistant flooring in kitchens and baths
- Toilets provided with seats 17" – 19" from the floor
- Windows are provided with maximum sill height of 36", parallel clear floor space and locks/operating mechanism within 48" and easily operable with one hand. Sidelight or view window at main entry door from a seated position
- Thermostats designed for visually impaired or ability to monitor and operate with electronic device such as a tablet computer
- Closet storage is adjustable in a majority of the closets provided
- Audio/Visual Doorbell
- Covered entry with adequate lighting and interior or exterior bench space for parcels or groceries
- Lettering and numbering with all characters and symbols contrasting with their background
- Braille characters included to the left on all interior signage
- Parking spaces provided for at least fifty percent of Universal Design qualifying units, rounded up to the nearest whole number, with a five foot wide adjacent auxiliary space connected to accessible route
- Residential elevator or chair lift space structured for future use in multiple level homes

- Enterprise Green Communities Model Specifications are used for applicable sections for the Universal Design qualifying units
- On-site physical activity is provided for in a fitness area, biking or walking path or community garden
- Other modifications which make units livable for disabled populations, as demonstrated by credible evidence provided in the application, at the sole discretion of Minnesota Housing

10. Revise Permanent Housing for Individuals Experiencing Long-Term Homelessness scoring criterion, retitle Permanent Housing for Households Experiencing Long-Term Homelessness.

Staff proposes to update this scoring criterion to align with the findings and recommendations published in the December 2013 report "Heading Home: Minnesota's Plan to Prevent and End Homelessness." The plan reports that significant progress has been made in preventing and ending homelessness among veterans and for people experiencing chronic homelessness, but that homelessness has continued to rise for families with children, and for youth. Staff proposes to continue incenting targeting of individuals experiencing long-term homelessness, including veterans and people experiencing chronic homelessness, and to further incent targeting for families with children and unaccompanied youth experiencing long-term homelessness.

Proposed

Minnesota Housing Competitive Round or Tax Exempt Points ("non-Bonus" points) – *5 or 10 Points*
"Non-Bonus" points will be awarded to permanent housing proposals in which a minimum of 5% (rounded up to the next full unit) of the total units, but no fewer than 4 units ~~are~~ will be set aside and rented to households experiencing long-term homelessness as defined in Minnesota Rules, Chapter 4900.3705:

5% to 9.99%, but no fewer than 4 units – ***5 points***

10% to 49.99%, but no fewer than 7 units – ***7 points***

50% to 100%, but no fewer than 20 units – ***10 points***

Minnesota Housing Competitive Round or Non-Tax Exempt Points ("bonus" points) – *100 Points*

100 points ("bonus points") will be available until a total of $1,923,000 (estimated 25 percent of Minnesota Housing's administered credit authority) in tax credits are awarded for qualifying permanent housing proposals for ~~households~~ families with children or unaccompanied youth experiencing long-term homelessness selected in the ~~2013~~ 2016 Housing Tax Credit competitions. For the purposes of this scoring category, an unaccompanied youth is defined as on his or her own without a parent or guardian and under age 25, including youth living with his/her own children. Once this maximum amount is reached, the 100 points ("bonus" points) will no longer be awarded for the remaining ~~2013~~ 2016 Tax Credit Program competitive funding rounds. If qualified per the requirements of this section, applicants may claim the "bonus points". Minnesota Housing

will make point reductions relating to the "bonus points" funding limits following its review of all applications in the funding round which claim these points. Qualified proposals may earn a maximum of 10 points ("non-bonus" points) and may continue to compete in the appropriate set-aside.

Public Comments Summary (*staff responses italicized):*

- **The Agency received one letter of support.**
- **GRH has been used in supportive housing developments serving individuals, but will be less feasible for family developments.**
  Minnesota Housing has seen GRH, as well as other sources of rental assistance, such as project-based Section 8, used to serve families experiencing long-term homelessness ("LTH"). In addition, Minnesota Housing publishes underwriting standards for LTH units without a rental subsidy.
- **Projects where more than 20 units will be set aside to serve households experiencing long-term homelessness should be awarded extra points.**
  The Agency wants to incent owners to develop housing with LTH deemed units, only to an amount that the development can support from both an operational and service standpoint. In addition, while there may be instances when a high absolute number of LTH units is an acceptable or preferable situation, current best practices consider how such volume impacts concentration and integration concerns. From a policy and economic feasibility standpoint we have found that smaller LTH components may also have certain benefits not found with larger numbers of absolute units.

Proposed Change Resulting from Public Comment (changes bolded and underlined): No proposed change

11. Revise Methodology for Temporary Priority – Foreclosed Properties scoring criterion.

The data methodology has been revised to use the state rate of foreclosure as the comparison rate for all areas in the state. The 2014/2015 QAP used a Greater Minnesota rate as the comparison rate for individual Greater Minnesota communities, however there have been dramatic decreases in foreclosure rates across the state, and an evening out of rates in Greater Minnesota. The attachment titled "High Need Foreclosure Methodology" contains a detailed description of the revised methodology.

Public Comments Summary (*staff responses italicized):*

- **The revision that the criterion looks at areas impact by foreclosures, and not just individual properties, will enable these resources to be used more effectively to address foreclosures in impacted communities.**
  The Agency has looked at areas impactd by foreclosures for several years. There has not been a change.

Proposed Change Resulting from Public Comment (changes bolded and underlined): No proposed change

12. Public comments received not directly related to the proposed changes.

Public Comments Summary (*staff responses italicized):*

- **Minnesota Housing should provide additional points when considering a proposal for supplemental housing tax credit and/or gap financing if a suballocator's top tax credit selection is an age restricted development serving low income seniors at 30%, or create a set-aside to ensure at least one senior project is selected in both the Metro and Greater MN. There is a growing need for this type of housing with limited funding sources available, and current thresholds governing the tax credit program don't work well for senior housing.**
  Minnesota Housing provides priority for supplemental requests in Round 2, regardless of whether Minnesota Housing or a suballocator was the initial tax credit allocator. Senior projects are eligible to apply and receive points under many categories, though a change in threshold requirements would require the Legislature to revise the governing statutes. In Round 2, projects targeting seniors are eligible to compete without regard to the statutory threshold. If a senior project is a suballocator priority it will be eligible to receive supplemental priority in Round 2 for already having received credits. Minnesota Housing has funded numerous developments targeting seniors in recent funding rounds, and seniors and households wishing to age in place are anticipated to be well served by housing created incorporating the proposed Universal Design criteria.
- **Provide points for projects that have submitted numbers to a syndicator and had projections run.**
  We have found that there hasn't been value in requiring syndicator letters of intent as the projections and requirements stated in these letters at the time of application have been preliminary, and have not translated into how deals end up being structured. There is, however, benefit to an application and to the developer for having completed this process with a syndicator in terms of reduced risk in taking Cost Containment points, and more certainty around the size of the required funding gap.
- **Make sure we are getting the best deals possible from syndicators – especially as equity markets have heated up and there is enough, if not excess, equity available in the market.**
  Tax credit prices are set by the market, depending on many factors the market values. While Minnesota Housing evaluates whether funding requests and terms of proposed financing appear reasonable, we do not get involved in negotiations among partners in the ownership entity. In addition, Minnesota Housing feels that it is also in the developer's interest to get the best price possible.

Proposed Change Resulting from Public Comment (changes bolded and underlined): No proposed change

<u>Summary of Scoring Criteria Impact</u>:

1. Strategically Targeted Resources scoring criterion:
The proposed revision has no impact on point values.

2. QCT/Community Revitalization scoring criterion:
The proposed revision has no impact on point values.

3. Serves Lowest Income Tenants/Rent Reduction scoring criterion:
The proposed revision increases the maximum point value from 13 to 16.

4. Economic Integration scoring criterion:
The proposed revision to community economic integration increases the maximum point value from 5 to 7.

The proposed revision resulting from public comment increases the maximum point value to 9 from 7.

5. Preservation scoring criterion:
The proposed revision decreases the maximum point value for federally assisted units from 40 to 35. The proposed revision also increases the amount of points available to projects that would have received priority of 10 points under the 2014/2015 categories of Preservation of Existing Housing Tax Credit Units to 14 under the 2016 category Critical Affordable Units at Risk of Loss, and for projects that would have received priority of 5 points under the 2014/2015 Stabilization category to 14 under the 2016 category Critical Affordable Units at Risk of Loss.

6. Rental Assistance scoring criterion:
The proposed revision has no impact on point values.

7. Location Efficiency scoring criterion:
The proposed revision increases the maximum point value from 5 to 11.

The proposed revision resulting from public comment decreases the maximum point value to 11 from 9.

8. Cost Containment scoring criterion:
The proposed revision has no impact on point values.

9. Universal Design scoring criterion:
Replacing the Special Populations scoring criterion with the Universal Design criterion maintains the 10 point maximum value.

The proposed revisions resulting from public comment maintains a combined maximum point value of 10 points between the two categories.

10. Permanent Housing for Households Experiencing Long-Term Homelessness scoring criterion:
The proposed revision has no impact on point values.

11. Temporary Priority – Foreclosed Properties scoring criterion:
The proposed revision has no impact on point values.

General Administrative and Clarifications:
Perform various administrative checks for spelling, formatting, text and instruction corrections and clarifications within QAP, Manual, Self-Scoring Worksheet, and other 2016 tax credit program related documents.

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Dakota County
Community Development
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March 13, 2014

Mary Tingerthal
Commissioner
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, MN 55101

RE: Dakota County CDA Comments on the Proposed Changes to the 2016 QAP.

Dear Ms. Tingerthal,

The Dakota County Community Development Agency has reviewed the proposed changes of the 2016 Qualified Allocation Plan and have identified several important comments on the following three items.

Item 4. Revise the Economic Integration scoring criterion.

a. Our largest concern with the economic integration criteria is that so much of the suburban areas lie outside the priority area. Our concern with this is that the methodology may be unnecessarily limited to areas with higher numbers of jobs overall, centering the data more on the urban core and first ring suburbs. It would be interesting to see how the priority area would be expanded if the percentile of low and moderate wage jobs was broadened to the 30th or 40th percentile. We agree that living close to employment is critical. However, the 5 mile commuter shed may also be tighter than necessary in the metro area, limiting the addition of new affordable housing in areas that have higher incomes and access to jobs within a reasonable driving distance but outside the 5 mile limitation. If the commuter shed was broadened slightly to 8 or 10 miles, the commuting distance would still be very reasonable but it would open up additional areas that meet this priority category.

Item 7. Revise the Minimizing Transportation Costs and Promoting Access to Transit scoring criterion, retitle Location Efficiency.

a. We agree that location efficiency is an important factor in housing, but a focus on transit-only options for location efficiency leaves suburbs largely out of contention. The increase in points will make this an increasingly important factor in project selection, effectively eliminating a large portion of the metro area that is not well served by transit at this time.

b. In suburban locations, we find it is difficult to find sites within the ¼ mile or ½ mile radius of transit routes to receive points under this section. We try to locate housing in close proximity to transit whenever possible, but many of the residential sites available are not within a ¼ or ½ mile radius of the transit options that do exist.

c. The addition of a walkscore submission is a good item to add, but the current score thresholds don't recognize the differences in development patterns within urban and suburban areas. The thresholds to receive points are so high that suburban locations simply are unable to meet the threshold to receive points, even in the most pedestrian centered suburban areas. The thresholds are really focused on an urban development pattern that can't be replicated effectively in developed suburban locations.

Item 9. Replace the Special Populations priority under the Household Targeting scoring criterion with a Universal Design scoring criterion.

a. We are concerned about the cost implications of this additional requirement for a competitive application, as well as the impact to different types of housing. The CDA typically provides townhome developments because our program is focused on serving families with children and we want to provide them as spacious and independent living environment as possible. Universal design elements may not work well with townhome developments without major modifications to our typical unit types, which adds costs and may reduce functionality of the units for the residents we typically serve.

b. The policy goal of this requirement is a good one - to allow choice for individuals with disabilities who are able to live independently - but to assign a level of points to this criteria that would essentially require it across the board doesn't allow for flexibility in implementing the policy goal.

Thank you for the opportunity to provide comments on the proposed changes.

Sincerely,

Mark Ulfers
Executive Director

cc:
Kayla Schuchman, Minnesota Housing Finance Agency
Chip Halbach, Minnesota Housing Partnership
Shannon Guernsey, Minnesota NAHRO

NAMI
National Alliance on Mental Illness
MINNESOTA

To: Minnesota Housing Finance Agency

On behalf of the National Alliance on Mental Illness of Minnesota (NAMI Minnesota) we are submitting these comments regarding the Minnesota Housing Finance Agency's Proposed 2016 Housing Tax Credit Allocation Plan. NAMI Minnesota is a statewide grassroots organization dedicated to improving the lives of children and adults with mental illnesses and their families. Safe and affordable housing as well as supportive housing are in short supply for Minnesotan's living with a mental illness and so we greatly appreciate the opportunity to comment on this proposal.

Our comments will focus on the proposal to "replace the Special Populations priority under the Household Targeting scoring criterion with a Universal Design scoring criterion" (p. 33). We appreciate and support the effort to encourage housing opportunities that promote integration. However, we are concerned that the proposal as drafted will not help us meet the housing needs of people with mental illnesses.

The Universal Design criterion will mainly benefit developments serving people with physical disabilities and may inadvertently leave behind other "special populations," including people with serious and persistent mental illnesses. We suggest two changes that we believe would accomplish the goal of promoting more integrated housing options while still providing incentives for developers to create supportive housing options for people with mental illnesses:

1) Retain the "special populations" criterion but modify the scoring mechanism to encourage scatter-site supportive housing units. Rather than awarding points for buildings that have *at least* 25 percent or ten percent of the total units set aside and rented to special populations, we suggest awarding points for buildings that include *between* 10 percent and 25 percent of the total units set aside and rented to special populations. This would promote more integrated scatter-site supportive housing developments but continue to encourage development of supportive housing for people with serious and persistent mental illnesses.

2) Under the "universal design" criterion, add additional features that would be beneficial to people with mental illnesses. The proposed changes do allow for points to be awarded on the basis of "other modifications which make units livable for disabled populations, as demonstrated by credible evidence provided in the application, at the sole discretion of Minnesota Housing". However, we would like to see this spelled out more clearly and specifically so as to encourage developers to consider design options that would be beneficial to people with mental illnesses in a supportive housing setting by reducing environmental stressors. Examples could include intuitive flow of hallways and building design, specialized and customizable lighting, or design elements that promote calming.

Thank you for the opportunity to comment. Please contact us if you have any questions.

Sincerely,

Sue Abderholden, MPH
Executive Director

Matt Burdick
Grassroots Advocacy Coordinator

MINNESOTA NAHRO SERVING MINNESOTA'S HOUSING & COMMUNITY DEVELOPMENT NEEDS

March 17, 2014

Minnesota Housing Finance Agency
Multifamily Underwriting
Housing Tax Credit Program
400 Sibley Street, Suite 300
St Paul, Minnesota 55101-1998

Sent via email to kayla.schuchman@state.mn.us

RE: Comments on the Proposed 2016 Qualified Allocation Plan (QAP)

To Whom It May Concern:

On behalf of Minnesota NAHRO and its members, thank you for the opportunity to provide comment on the Proposed Revisions to the 2016 Housing Tax Credit Program, Qualified Allocation Plan (QAP) and Procedural Manual. Minnesota NAHRO members own, manage or administer the majority of subsidized rental housing in Minnesota including all public housing plus the administration of the Housing Choice Voucher/Section 8 program. Please consider this letter our comments on the proposed changes to the 2016 Housing Tax Credit QAP.

State Designated Basis Boost

The proposed revisions appear to expand the use of the basis boost to apply to projects that include critical affordable units at risk of loss and this is a good expansion. There is concern that the expansion does not clarify that the basis boost is available for the purpose of enabling financial feasibility of a project (see item a.2). In the current economic environment, it is anticipated that construction costs will continue to put upward pressure on the total development costs of a project and as such, it is important to ensure that the additional credits per project will be awarded help move projects forward and achieve financial feasibility.

Revised Definition of Community Revitalization Plan

As currently drafted, the elimination of a comprehensive, land use or general neighborhood planning documents as sufficient to meet the Community Revitalization Plan criteria presents a number of concerns. First, the level of specificity required is too demanding especially because communities with completed revitalization plans will not go back to revise those plans for a particular developer or project. Second, the QAP should allow for community plans that are clearly revitalization oriented and identify the investments that will be made in the revitalized area but may not be project specific. Third, the requirement that the local jurisdiction must provide a letter of support that the project is part of the plan may provide local governments an additional opportunity to oppose affordable housing development even though it contributes to the specific goals of the revitalization plan. Finally, community revitalization plans are costly and as currently drafted, the level of specificity required for a plan to meet this criteria will impose additional costs for the local jurisdiction and/or the development.

Economic Integration Scoring Criteria

The use of census tract data is very useful when determining whether a project is economically integrated and the increased points for this indicates its growing importance. However, strict adherence to the census tract boundaries may be too limiting in some circumstances. Specifically, a housing project may be proposed on an attractive and available site that is close to but not within the high income census tract. As such, the QAP should allow a developer to demonstrate why a proposed project should qualify for economic integration points even if it not located directly in the qualified census tract.

Preservation of Federally Assisted Units

In determining eligibility for preservation points, we recommend that the award criteria should include a three year "look back period" to qualify for preservation points. For example, a property should qualify if an owner had previously taken out short term financing to address emergency repairs within the past three years. A project should also qualify if it was subject to a recent transfer to a preservation committed owner. Finally, a project should quality if two and not three of the "risk of loss" criteria are met.

Dual Application Requirement

Under preservation, it is understandable that the agency is seeking maximize the use of both the 4% and 9% tax credits. However, the requirement that all projects seeking preservation points must submit an application for both 4% and 9% is too onerous. We recommend that the agency and developer should determine whether it is feasible to submit a dual application during the pre-application process in order to streamline the process and reduce costs to the applicant. Specifically, at the pre-application stage, projects should be identified that fit the criteria but would not be good candidates for the 4% credit. These projects should saved the cost and expense of the dual application.

Transportation Costs/Access to Transit

It appears the map provided for this criterion eliminates many suburban areas that have positive attributes for affordable housing. This map and criterion should be revised to ensure that affordable housing may occur in communities that have good schools and job opportunities for residents.

Cost Containment Penalty

The effort to hold down total development costs is important and it is clear that development costs will continue to increase rapidly if the economy continues to improve. The proposed penalty to take off points in future rounds is too severe especially since developers have little ability to hold down many elements that contribute to the total development costs. The agency should investigate cost drivers in the 2013 round and incorporate a less severe penalty for the 2016 QAP. For example, projects that achieve cost containment should be awarded points and if the penalty is applied, it should be for costs that the developer can control.

Universal Design Criterion

The shift to universal design criteria is understandable but there is concern that this shift will impact project costs. In light of the proposed penalty noted above, the agency should incorporate universal design criteria with caution as the agency should examine how the universal design criteria may impact projects costs.

Foreclosed Properties Methodology

The revision that the criteria look at areas impacted by foreclosure and not just individual foreclosed properties better reflects the issues faced by developers and will enable these resources to be used more effectively to address foreclosures in impacted communities.

The following comments concern items not specifically addressed in the 2016 QAP but we expect them to be important issues in future funding years governed by this proposal.

Rental Assistance Demonstration Project

While agencies in Minnesota currently have a limited participation in the RAD program, it is anticipated that by 2016, this program will have greater presence in the state. Moreover, it is widely recognized the RAD is the "only game in town" at the federal level as other public housing preservation tools have been de-funded, underfunded or increasingly more difficult to use (i.e. HOPE VI). Among the impacts of the RAD program is the expected funding shift for public housing properties. Specifically, in the past their funding was generally limited to the Operating and Capital Fund but, through RAD conversions, these properties will tap into tax credit programs (currently most RAD tax credit properties used the less competitive 4% credit). There is much to learn through extensive analysis and evaluation as the RAD program continues to close the deals on the 60,000 units currently in the pipeline. Consequently, Minnesota NAHRO asks that the agency work with state industry experts to assess the impact of the RAD program in the coming years and how it interacts with the state's tax credit program, the Project Based Section 8 program as well as the federal funding landscape.

Age Restricted Housing Serving Seniors

Minnesota NAHRO is concerned that there is no clear adequate production option for communities to meet the needs of low income seniors. Specifically, the 2016 QAP does not directly address the growing need for affordable senior housing while many of the funding resources used to develop such projects either no longer exist or face considerable market pressures. As such, it is recommended that Minnesota Housing provide an equal opportunity and/or additional point opportunities when considering a proposal for supplemental housing tax credit and/or gap financing if a sub-allocators top tax credit selection is a senior (age restricted) development serving low income seniors at 30% AMI. Allowing for this type of development will leverage the state's investment and serves in increasing number of very low income households in the state. Without the state's commitment through the housing tax credit program, the need will only increase and become more expensive to address.

Thank you for the opportunity to submit these comments on behalf of Minnesota NAHRO member agencies. If we can be of further assistance, please do not hesitate to contact us.

Sincerely,

Shannon

Shannon Guernsey, JD
Executive Director

Minnesota Housing Partnership www.mhponline.org 651–649–1710

mhp

Via email

March 17, 2014

To: Kayla Schuchman, Minnesota Housing
From: Chip Halbach, Minnesota Housing Partnership

RE: 2016 LIHTC QAP

Once again MHP hosted a discussion call for developers on the QAP. The points below are ones that were raised during this call.

In addition to these points MHP encourages the Agency to create a scoring mechanism to award tax credits to <u>one senior development in the Twin Cities and one in Greater Minnesota</u>. While the thrust of the Agency's program should remain on assisting families, some support for the growing senior rental need should be accommodated.

1) State designated basis boost
   - QAP points under this criterion also should be available for the purpose of enabling financial feasibility. There is a lot of upward pressure on development costs now and additional credits per project will help move (albeit fewer) projects forward.
2) Revise definition of Community Revitalization
   - The hoops that a community must go through so that the presence of a local plan qualifies a development for points are too demanding. Communities that have completed plans will not go back to revise those plans so a developer can get points for a particular project. More allowance should be made for community plans that are clearly revitalization oriented but do not meet the specific criteria being proposed, such as requiring that the plan identify the investments that will be made in the revitalization area.
3) Serves lowest income tenants/rent reductions
   - No comments recorded.
4) Economic Integration scoring criteria
   - A lot of geographic areas that clearly would be described as economically integrated don't qualify by requiring strict adherence to census tract boundaries. A housing project might be proposed on an attractive and available site that happens to be across the street (and census tract boundary) from a high income area. A developer should be able to make the case for why a proposed project qualifies for economic integration points even if it rests outside the qualifying area.
5) Preservation of federally assisted units
   - In determining eligibility for preservation points a developer should be able to look back some amount of time (e.g., 3 years). For example, a property should qualify for these points if an owner had previously taken out short term financing to cover emergency repairs; likewise a project should so qualify if there had been a recent transfer to a

preservation-committed owner. Regarding the "risk of loss" criteria (page 56 of the QAP memo), a project should qualify if just two (not 3) of the criteria are met. Finally, the required dual 4% credit app. on all projects going after the preservation points is too onerous. The preapp. process should also be used to identify projects that fit the preservation project criteria but would not be good candidates for 4% credits (e.g., smaller projects that could not afford all of the extra costs in having a tax exempt bond financing). These projects should be spared the requirement to prepare a dual application.

6) Revise rental assistance criterion
   - No comments recorded.
7) Revise minimizing transportation costs/access to transit
   - While transit accessibility is a worthy objective the large number of points awarded under the location criterion might skew development away from sites adjacent to good schools and employment opportunity. It appears that the maximum number of points for economic integration is proposed to be 7, while the maximum for location efficiency is proposed to be 11. Points for the locational efficiency criterion should be fewer than the points available for economic integration, not greater as is proposed.
8) Clarify cost containment
   - Currently development costs are increasing rapidly and developers have little ability to hold down TDC. The current and proposed penalty of taking points off future round proposals is too severe. The agency should investigate why cost increases are occurring in 2013 projects awarded these cost containment points and develop a more nuanced penalty that might take away points in situations where there were cost increases that a developer should be able to control.
9) Replace special population criteria with universal design criterion
   - Universal design criteria should be examined for how they impact project costs.
10) Revise permanent housing for long term homeless (individuals to families)
   - No comment recorded.
11) Revise methodology for temp. priority, foreclosed properties
   - It's helpful for communities hard hit by foreclosures that the criterion looks at areas hit by foreclosures, not just individual foreclosed properties.

Minnesota Housing Partnership

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Homes for Generations

Date: March 17, 2014
To: Commissioner Mary Tingerthal, Minnesota Housing Finance Agency
Kayla Schuchman, MHFA
From: Gina Ciganik, Vice President – Housing Development, Aeon
Re: Comments to 2016 Tax Credit Program QAP and Procedural Manual

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Thank you for the opportunity to provide feedback on the proposed changes. Aeon submits the following comments for the 2016 QAP proposed changes.

1. Clarifying State designated Basis Boost: Aeon has no comment.

2. Community Revitalization definition change and requirements for:

   The new definition is too specific and puts pressure on cities to continually customize and tweak plans each year. Cities will unlikely make these changes as their plans are typically broad in nature and do not have language that will likely meet the proposed new language. What problem is this new language trying to solve? Is the State finding that communities are not in support of the projects submitted to the MHFA? Aeon does not support this change and requests more information about the particular problem that is occurring or the benefit that will be gained by the additional work required to modify community plans and obtained customized letters.

3. Serves Lowest Income Tenants/rent reduction: Aeon has no comment.

4. Economic Integration

   It is good that the affordable unit threshold is no longer 50%, but 80% (changed last time), which is more in line with the mission of MN Housing (affordable housing). However, it is true that mixed income deals are tough to underwrite with syndicators, and more risky – meaning susceptible to changes in the economy, and rarely can charge enough in rent to cover the cost of the unit…meaning there typically is a gap on "market rate" units that needs to be filled since the rent is likely between 60%-80% AMI and it not truly "high end". This does not suggest that mixed-income is bad or impossible (Aeon does it), but it is important to understand that unless the project is in a very high wealth area, and amenities are commensurate with those in luxury buildings (which add cost) many market rate rents are maxed out around 60% AMI, so why would we not count them as affordable, be able claim the basis, and get tax credit equity to pay for it. Who pays for the gap to create market rate units?

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Providing incentives for projects in high income areas is good, but the unintended consequence is that there is no incentive to develop projects in poor communities that have been undercapitalized for years. I think we used to call that Redlining. What are we doing to balance the incentives to encourage developers to provide quality affordable or mixed-income housing in less affluent communities? At South Quarter at Portland and Franklin, Aeon and Hope have brought mixed-income (higher rents) to a lower income community that will help transform that community and deconcentrate poverty in that location. This type of work should be equally incentivized as bring affordable housing to a "higher income" community.

5. Preservation of Federally Assisted Units, Tax Credit Units, and Stabilization

   We should not only focus on the preservation of Federally Assisted units, but make the top priority to preserve project with rents at 30% AMI, regardless of the means by which these critical units achieve those low rents. For instance, in Aeon's earliest portfolio, we have hundreds of units that are serving residents at 30% AMI with no rental assistance. Maintaining those rents are not subject to the whims of HUD when they have a budget crisis...which seems to be a reoccurring event these days. Aeon encourages the state to prioritize the preservation of 30% AMI units, inclusive of Federal Subsidy and other means. Why would 30% units be less of a priority to preserve, just because there is not a federal subsidy attached?

   In theory, analyzing the ability to use 4% tax credits on preservation and other deals is a good idea and may lessen the completion for the scarce 9% credits. Getting better at using other financing tools will add more affordable housing in our community. Aeon is using this principle with our developments. We have found some success, and we have found situations where a 4% financing mechanism will not be cost effective or will create an unconquerable gap. Aeon is ok with the dual application, as long there is reasonable proactive discussion prior to submission, so that the state understands the gap and is reasonably sure that they will be able to address it by other means. If a project is just way too far off, then the time and cost it takes to put together another financing package and application may be too onerous for some.

6. Rental Assistance: Aeon has no comments

7. Minimizing Transportation costs/access to transit

   Just a note on Walk Score for Metro projects, it works great in urban areas, but not so great in suburban areas. Clover Field Marketplace in Chaska is across the street from a park-and-ride, an

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elementary school, has some commercial within the building, etc. It scores a 6. I am a big fan of WalkScore, but it is not a perfect measure in some communities.

A note on parking, often the city zoning is more flexible than our funding partners. A city may not have a parking requirement in an urban area, but the marketability of the units, especially in mixed income development, may demand it and it would be unwise to create market rate units and not have the parking ratios they will demand – even affordable housing residents have a need for some parking. Our mortgage or syndication partners often require more parking than the city requires as our market studies show that parking is an expectation of the future residents. Be careful what you are incentivizing. The Twin Cities is not yet a community that allows you to give up a car, as our bus routes and light rail is not robust enough to accommodate our transit needs. I wish we could eliminate or minimize parking to a substantial degree, but I also know that we will not be able to successfully rent the building without it.

8. Clarify Cost Containment.

Thank you for adding additional clarification to this criterion.

Aeon does not believe that the Cost Containment Category, as proposed, should be part of the point system, but would be better served as an analysis that MN Housing staff completes as part of the underwriting process. The current Methodology is incredibly complex, and unlikely the best assessment of understanding whether a project is making the right investments in the right places.

The main problem is that the Total Development Cost per unit, as an aggregate number, is simplified to almost render it meaningless in determining whether a project is using resources wisely. There are about 4 to 6 sub-categories, each having their own unique components that would be more important to assess as part of the whole. I respectfully suggest that we take this opportunity not to find a "perfect" point system that may or may not in the end properly interpret or affect project costs, and instead we should take this opportunity to work together to consider industry wide ideas that will proactively and strategically find ways to lower costs that don't add value (i.e. holding costs, financing fees) while incentivizing appropriate quality that considers lowering the long-term costs of ownership.

In terms of the penalty for a higher project cost at closing, we are submitting our applications at least a year before closing and construction start and do include an inflationary assumption, not knowing where the construction market will be in a year – but can't predict the future. There is a difference if a project gets hit with an unpredictable issue, vs not managing costs appropriately.

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Also, if philanthropic partners want to pay for a specific element, like a solar thermal system that will be a benefit to the project, why would a developer be penalized to take that opportunity even though it would technically increase the project budget (first costs), but would clearly be a fantastic benefit to the project. The prescriptiveness in this criterion removes the ability for good human common sense evaluation.

If the MFHA continues to use this means of incentivizing and penalizing, it is also important that as part of the enforcement, the Agency publishes after the selection of projects, those projects and developers that received the points, and the total budget/per unit cost. It is important to follow-up at the time of closing/construction completion and publish the cost of development so that it is clear that the projects are being monitored.

9. Universal Design replacing Special Populations

   It is important to remember that there are some populations who thrive in a single-site property that has a culture and programming to support their needs, who otherwise may fail miserably being placed in a scattered site or integrated situation. We need to keep a balanced perspective and understand that different people will succeed or fail in one or the other.

   Universal design is an important consideration in projects. Some additional analysis about impact to project costs will be important before incentivizing 100% of the units meet this criterion, or even 20% in a non-elevator building.

   If it is likely that a smaller number of units will need the universal design components, then incentivizing 100% may not be the best use of funding. Aeon often finds that most of our accessible units are not rented by people who need them, though there is a lease provision that the capable household may need to move if the unit is needed by someone with special needs. However, we still find that it is unlikely that 100% of the units will need universal design.

10. Long term homeless: Aeon has no comment

11. Foreclosure: Aeon has no comment.

Wilson, Tamara (MHFA)

From: Schuchman, Kayla (MHFA)
Sent: Monday, March 17, 2014 2:44 PM
To: Wilson, Tamara (MHFA)
Subject: FW: Comment to proposed 2016 QAP changes

From: Jim Steiner [mailto:jsteiner@nefinc.org]
Sent: Monday, March 17, 2014 2:35 PM
To: Schuchman, Kayla (MHFA)
Cc: Mary Ann Hayes; Andriana Abariotes
Subject: Comment to proposed 2016 QAP changes

Kayla, we would like to provide two comments regarding the proposed QAP change emphasizing family supportive housing:

1. Existing family supportive housing has utilized project-based Section 8 as the primary rental subsidy source. While GRH has been a successful source for individuals it has not been for families due to how the GRH program subsidy reduces disproportionally as family tenants transition to employment.
2. We believe that existing family supportive housing with existing Section 8 subsidies in place should be considered a first priority for preservation.

If you would like to discuss in greater detail please feel free to contact either me or Mary Ann Hayes.

Thanks

jim

Jim Steiner | Acquisitions Consultant
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570 Asbury Street | Suite 207 | St. Paul, MN 55104
Phone (651) 265-2288 Cell (651) 334-5546
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Wilson, Tamara (MHFA)

From:	Schuchman, Kayla (MHFA)
Sent:	Monday, March 17, 2014 2:56 PM
To:	Wilson, Tamara (MHFA)
Subject:	FW: Comments on 2016 QAP--appraisal process

From: Janet Pope [mailto:janet@jlpope.com]
Sent: Monday, March 17, 2014 2:55 PM
To: Schuchman, Kayla (MHFA)
Subject: FW: Comments on 2016 QAP--appraisal process

Kayla,
I should also comment that the appraisal process is not accomplishing cost containment, in my experience. Having to submit an application not knowing what the appraised value of the subject property it, means a lot of delay in moving the project forward at award. And, the Ebenezer Tower experience in this last round was that the appraisal ordered by the Agency has some serious flaws. After spending several months working with NEF to get the project structured using that appraisal, the project team, including NEF, agreed we should order another one on which to rely, With MHFA's approval, we have done so, adding $10K in project costs, and a delay of a month or so for the second appraisal, not to mention the several months of lost structuring time. I understand the goal of minimizing the sale price, especially in related entity transactions, but I don't think the best method has yet been developed. Thanks! Janet

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From: Janet Pope <janet@jlpope.com>
Date: Monday, March 17, 2014 2:49 PM
To: Kayla Schuchman <Kayla.Schuchman@state.mn.us>
Subject: Comments on 2016 QAP

Kayla,
A couple of things:
5) Preservation of federally assisted units:
Re the changes in preservation scoring, technical assistance is huge as these applications are put together, so the pre-app process makes sense—although we'll see if folks honor it. There will be a certain amount of putting apps in anyway, I expect.

Re the dual 4% app requirement, it will be good to have the specifics of what is required there—i.e. A second HTC-1, or additional documentation, supporting projections.

Going from three categories to two, seems to work. It's still a complex section to work through, so, hopefully, it will accomplish the targeting that is intended.

8) Clarify cost contentment
Cost containment is a worthy goal and some projects are incredibly efficient and effective and should receive the points. It would be helpful to publicize how this went in last year's round.

10) LTH from individuals to families:
There is definitely a need. Exponentially more service dollars will be needed for families. And, GRH doesn't work well with families, even when it is allowed to be used for them, as I understand it. As the HOH get jobs and are able to pay 30% of their income, this amount does't replace the GRH rent amount formerly available when the HOH wasn't working.

Also, on the points for LTH units, I think it would make sense to include points in the LTH category for project providing more than 20 units of LTH—whatever percentage they are of the total project units. I'm thinking of Redeemers (now Dale Street Place) and Ebenezer Tower, both of which provided upwards of 60 LTH units—along with the service funding required. Don't know if there will more of those, but if so, they should be rewarded with points, esp. as service dollars become more and more scarce.

General:
1) One category that might be added is some level of points for projects that have submitted numbers to a syndicator and had projections run on the ones being submitted in the application. Particularly in relation to reserve requirements, which are so extensive/onerous, we all should know up front. The other item here is syndicator annual fees and underwriting the organization requirements, which are good to have out in the open as deals are being considered. You can't, of course, require an LOI, as we won't be able to get that from syndicators without the credits. One thought that comes to mind as I write this, is would there be a way to use this make sure we're getting the best deals from syndicators? Since the equity market has heated up, it seems there is generally at least enough, and probably more, equity available than there are credits. . . Could warrant a look. I've heard Commissioner Tingerthal comment on the high reserve requirement issue at national conferences.

2) As much as possible, sharing data about the tax credit and preservation projects that have closed, and at markers over the operations period would be helpful.

3) The new 402 looks good, but so far it doesn't work on Mac machines. It would be helpful to have this remedied as soon as possible.

I am sorry not to get this to you any sooner. I will forward a copy of this to Julie LaSota, with whom I have discussed the Preservation scoring and LTH areas.

Thanks for all your work!!

Best regards,
Janet
Janet Pope
JLPope Associates
651-414-9407

NATIONAL HOUSING TRUST

March 17, 2014

Julie LaSota
Minnesota Housing
400 Sibley Street, Suite 300
Saint Paul, MN 55101

Re: Minnesota Draft 2016 Qualified Allocation Plan

Dear Ms. LaSota.

The National Housing Trust (NHT) is a national nonprofit organization formed to preserve and revitalize affordable homes to better the quality of life for the families and elderly who live there. NHT engages in housing preservation through real estate development, lending and public policy. Over the past decade, NHT and our affiliate, NHT-Enterprise Preservation Corporation, have preserved more than 25,000 affordable apartments in all types of communities, leveraging more than $1 billion in financing.

We appreciate the opportunity to comment on the proposed changes for Minnesota's 2016 Qualified Allocation Plan. NHT fully acknowledges and appreciates the entire set of preservation policies and programs established by the Minnesota Housing. The comments below refer directly and specifically to Minnesota Housing's proposed QAP as it relates to the tax credit program. We appreciate that the State of Minnesota has other successful preservation programs and policies.

In summary, we urge Minnesota Housing to:

- **Maintain a balanced approach in the allocation of tax credits for new construction and the preservation of existing housing.**
- **Maintain the points awarded to proposals involving preservation.**
- **Balance the allocation of credits across different markets and neighborhoods.**
    - **Give equal consideration to both preservation applicants who are redeveloping properties occupied by minority households in low-income neighborhoods <u>and</u> applicants who are developing properties in areas of high opportunity.**
    - **Remove the required community revitalization plan in communities with weaker markets.**
- **Maintain the incentives for green building standards and proximity to public transportation in the final QAP.**
- **Maintain the dual application for 4% and 9% credits with sensitivity to appropriate uses of each credit.**

Low Income Housing Tax Credits and Preservation in Minnesota

As Minnesota Housing is well aware, preserving and rehabilitating existing housing is a cost-effective and sustainable method to provide rental housing to low-income families and seniors. Preservation safeguards existing affordable housing by prolonging federal investment in affordable housing properties and requires less tax credit equity per unit than new construction developments. In 2011, preservation projects in Minnesota required an average of 41% less tax credit equity per unit than new construction developments[1]. From 2003-2011 Minnesota's successful preservation work has resulted in no less than 8,085 units preserved using both 9% and 4% tax credits. This success is truly outstanding. Furthermore, preservation projects in Minnesota have helped promote green practices and resource efficiency by salvaging and improving existing buildings.

Nonetheless, critical affordable housing units are at risk in Minnesota (see table). These affordable apartments currently provide homes for some of Minnesota's lowest-income families and elderly citizens. By prioritizing preservation, Minnesota's Qualified Allocation Plan provides the incentives necessary to prevent the loss of this unique housing resource.

At-risk properties in Minnesota

Project-based Section 8 properties with contracts expiring by 2017:

- 15,144 assisted units in 312 properties
- 59% of which are owned by for-profit owners

Scoring Criteria: By awarding points to preservation in the QAP, Minnesota Housing demonstrates a strong commitment to preservation that helps meet the needs of Minnesota's elderly, disabled, and low-income households. NHT **strongly supports Minnesota Housing's efforts to encourage preservation by awarding up to 35 points to preservation proposals in the scoring criteria.** We especially support Minnesota Housing's efforts to preserve housing for the lowest-income individuals and families through points awarded to projects that include federal rental assistance. At the same time, we support the preservation of affordable housing for those earning less than 30% of income regardless of the presence of a federal subsidy and believe those properties should receive an equally high priority.

Low Income Housing Tax Credits and Opportunity

The Trust recognizes Minnesota Housing's efforts to preserve and build properties in locations with high opportunity through the Economic Integration and Workforce Housing Communities scoring criteria. We believe indicators of opportunity should be one factor considered when deploying low income housing tax credits, particularly with respect to the siting of new construction units. However, we are concerned about criteria which mandates first and second tier preservation projects be located in strong markets. **While such a policy helps preserve critical housing that is at-risk for opt-out, it is important to balance the allocation of credits across different markets and neighborhoods.** The preservation of housing can act as a vital tool to promote revitalization by catalyzing investment and development in neighborhoods with weaker markets.

Fair Housing Principles: Fair housing principles have an equal emphasis on pro-integration and anti-discrimination. Striking a balance between addressing priority housing and redevelopment needs and providing improved opportunities can produce a tension between the twin goals of the Fair Housing Act – avoiding discrimination while promoting integration. **NHT urges Minnesota Housing to equally weigh preservation applicants who are redeveloping properties occupied by minority households in low-income neighborhoods and applicants who are preserving or building new properties in areas of high opportunity.** By striking a balance between incentivizing construction in communities of opportunity and investing in

[1] Tax credit equity numbers based on tax credit allocated in 2011 reported by Minnesota Housing to the National Housing Trust.

existing neighborhoods, Minnesota Housing will preserve existing affordable housing occupied by low-income households and avoid discrimination against those households by catalyzing investment and development in those neighborhoods.

Community Revitalization Plan: It is appropriate, under certain circumstances, to use the Housing Credit to preserve and improve existing housing in lower-income communities even absent a broader community revitalization plan – while also recognizing that other preservation transactions occur as a vital part of comprehensive revitalization plan or to retain critically needed affordable housing in high opportunity areas

In the draft QAP, a property can receive an additional 9 points with the caveat that it must also be awarded points in at least three of the following categories: economic integration (areas of opportunity), TOD, workforce housing (areas of opportunity), foreclosed properties, OR be a QCT/Community Revitalization plan. These projects can receive 5 bonus points for funder collaboration.

We generally support the above criteria, but **we do not believe Minnesota Housing should require there be a community revitalization plan in communities with weaker markets.** Minority households who wish to stay and improve their communities should not be short changed. There are cases where, even absent a community revitalization plan, competitive 9% credits should be provided.

The proposed community revitalization plan requirement could also result in the unintended consequence of empowering cities to prevent affordable housing from being developed. Cities that are not supportive of affordable housing development could simply decide to take no action to pursue a community revitalization plan. This kind of passive opposition would be a very easy route for a city to effectively block affordable housing.

In addition, the proposed definition of a "community revitalization plan" seems to exclude virtually all of the types of revitalization plans typically undertaken by local government entities, including small area plans, master plans, corridor plans, redevelopment plans, TIF plans, development objectives, main street plans, etc. Many jurisdictions also adopt very specific housing development objectives within their comprehensive plans and HUD consolidated plans, yet these too seem to be excluded. The definition of community revitalization plan should clearly allow for plans of these types and should specifically define acceptable plan types.

Preservation and Sustainable Communities

Minnesota Housing recognizes that preservation of existing affordable housing is *fundamentally* green: rehabilitation produces less construction waste, requires fewer new materials, and consumes less energy than demolition and new construction. Using green building strategies, preservation projects can deliver significant health, environmental, and financial benefits to lower-income families and communities. Green technologies promote energy and water conservation and provide long-term savings through reduced utility and maintenance costs, all while providing residents with a healthier living environment and reducing carbon emissions. **NHT enthusiastically supports the inclusion of Enterprise Green Community standards in the QAP threshold criteria, which encourages green building practices and energy efficiency while recognizing the inherently green nature of preservation.**

The Trust also commends Minnesota Housing for recognizing the importance of transit-connected affordable housing in its 2016 QAP. By awarding points to projects located in close proximity to public transportation, Minnesota Housing will preserve these at-risk units while further incentivizing location efficiency among low-income housing tax credit applicants. Because transportation and housing are the two largest expenses for households across the country, awarding points in Minnesota QAP for transit oriented developments helps ensure that low-income families are able to fit both of these necessities into their budgets.

Dual 4% and 9% Applications

NHT supports the dual application of 4% and 9% credits so long as the Agency takes into consideration the potential need for soft funding in 4% candidates. We agree with Minnesota Housing that, where feasible, the preservation of existing housing with 4% credits can be useful. Obviously, this may not be the case in weaker markets or markets where equity providers are not CRA driven. Many markets in Minnesota would not be suitable markets for financing with 4% credits and private activity bonds. Moreover, there are undoubtedly some or many of the older 65,000+ units of Project Based Section 8 and Public Housing units that have more distinct physical needs than the equity raised by 4% credits can reasonably address. With that in mind, we support the dual application requirement.

Conclusion

It is fiscally prudent for states to balance tax credit allocations between new construction and preservation/rehabilitation. In addition to helping to build sustainable communities, preservation is more cost-efficient and environmentally friendly than new construction. The National Housing Trust urges Minnesota Housing to continue its support for sustainable communities and the preservation of Minnesota's existing affordable housing by maintaining its support for preservation in its final 2016 QAP.

Thank you for the opportunity to comment on this important issue in the State of Minnesota.

Sincerely,

Michael Bodaken

Michael Bodaken
President

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March 14, 2014

Kayla Schuchman
Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

Re: Comments Regarding Proposed Revisions to the 2016 Housing Tax Credit Program

Dear Kayla:

CommonBond appreciates the comprehensive changes Minnesota Housing has proposed for the 2016 Housing Tax Credit Program. We would like to offer our comments on the following items.

1. **Basis Boost:**

The language in the proposed section a.2 category is not clear. New or existing properties with a long-term (15+ years) Section 8 HAP contract in place should clearly be included in the proposed section a.2 priority category. This ongoing rental assistance clearly provides the required ongoing affordability at or below 30 percent of AMI for this priority.

2. **Community Revitalization Plan:**

Concerns re: Location: The proposed Community Revitalization Plan requirements do not seem to be aligned with current efforts to achieve greater regional equity. In general, higher-income areas with strong markets are not likely to embark on a community revitalization plan process. Revitalization plans are far more likely to be developed in the inner city, in areas that are experiencing disinvestment and decline and are in need of revitalization. Small cities in greater Minnesota may not have access to resources to undertake a number of community revitalization plans. The proposed revitalization plan language strongly limits and discourages development and preservation in areas of opportunity, particularly in MN Housing's 'geographic priority areas'.

In addition, the proposed community revitalization plan requirement could end up having the unintended consequence of empowering cities to prevent affordable housing from being developed. Cities that are not supportive of affordable housing development could simply decide to take no action to pursue a community revitalization plan. This kind of passive opposition would be a very easy route for a city to take.

Lack of Clear Definition: In addition, the proposed definition of a 'community revitalization plan' seems to exclude virtually all of the types of revitalization plans typically undertaken by local government entities, including small area plans, master plans, corridor plans, redevelopment plans, TIF plans, development objectives, main street plans, etc. Many jurisdictions also adopt very specific housing development objectives within their comprehensive plans and HUD consolidated plans, yet these too seem to be excluded. The definition of community revitalization plan should clearly allow for plans of these types and should specifically define acceptable plan types.

5. **Preservation Scoring:**

Term of HAP Contract: The proposed removal of the requirement that HAP contract expiration must be within a certain timeframe in order to meet preservation thresholds is interesting, but it should be noted that MN Housing's policy has been to process long-term HAP contract renewals only at the time of contract expiration. Since securing a long-term HAP contract renewal is almost always a lender and equity investor requirement at the time of refinance, this could be problematic if, for instance, the HAP contract did not expire for another 6-7 years. MN Housing's long-term HAP renewal policy should be revisited.

Risk of Loss Due to Ownership Capacity: Owners with diminished capacity often need to sell their property very quickly. They may not be willing to consider a purchase agreement with a term long enough to accommodate the application, selection, underwriting and closing process, and it is likely that the property will be sold to an investor with no interest in preservation. Since MN Housing is seeking ways to become more proactive regarding preservation, properties acquired prior to the RFP round in order to prevent loss due to ownership capacity should be eligible under this threshold.

Funder Collaboration: This provision seems very constructive, but we would note that receiving and documenting approval for assumption or extension of existing MN Housing loans to qualify for these points will be extremely difficult. MN Housing's policy and procedure for approving loan assumptions and modifications requires a fully funded, ready-to-close project. It would be helpful for the language in this section to be clearer about the definition of 'funder commitments' and also provide clarity regarding the process for obtaining a 'funder commitment' for assumption or extension of MN Housing loans at the time of application.

7. Promoting Access to Transit:

The proposed revisions to this section are for the most part very constructive. Encompassing the concepts of walkability, density, parking and alternative means should result in a much more holistic approach.

We are, however, concerned about the very high cost of land along transit corridors and how this intersects with MN Housing's cost containment criteria. The additional points proposed for this section create some tension between these objectives.

8. Universal Design

The proposed design features in this section will have significant cost implications, creating conflict with MN Housing's priority for cost containment. In particular, we would note the following:

- For new construction, a number of the specified design features have very high cost implications, including the need for significant additional square footage in a number of areas.
- For rehabilitation of existing buildings, many of the proposed minimum design features are not physically feasible, or are simply cost prohibitive.
- The technical and physical feasibility of several of these criteria needs further analysis. We would be happy to participate with MN Housing in further analysis.

Other - Acquisition and Appraisal Policies:

In the 2014 Round 1 RFP selection process, MN Housing adopted a new acquisition policy limiting the allowable acquisition basis to the lower of appraised value or purchase price. This policy was not referenced in the Underwriting Standards published at the time of the RFP application process, but MN Housing indicated that it would be clarified in their next iteration of the Underwriting Standards.

This policy change has not been included in the current (December 6, 2013) Underwriting Standards, and is not referenced in the proposed 2016 HTC proposed revisions.

In addition to the fact that this is not consistent with IRS guidance, the revised acquisition policy is also not consistent with MN Housing priorities. Elsewhere in the HTC governing documents, MN Housing strongly discourages above-market property purchases. The revised acquisition policy actually creates a penalty for developers who successfully negotiate the purchase of property at a price that is significantly below fair market value. It would be helpful to have further clarification.

It should also be noted that the appraisal requirements in the Underwriting Standards state that the as-is appraisal procured by MN Housing at the time of application shall include a 'separate value for both the building and the land.' A recent appraisal procured for a CommonBond acquisition/rehab application did not include separate land and building values. It would be helpful if this could be addressed in future rounds.

Please contact us if there are any questions.

Sincerely,

Ellen Higgins
Vice President of Business Development

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March 14, 2014

Kayla Schuchman
Minnesota Housing
400 Sibley Street, Ste. 300
Saint Paul, MN 55101

RE: Comments on the Proposed 2016 Housing Tax Credit QAP

Dear Kayla:

We write today representing both the Family Housing Fund, a supporting organization of Minnesota Housing and long-time Consolidated RFP funding partner, and as Chair of the Interagency Stabilization Group (ISG), a government and private sector funders group working to preserve housing by coordinating funding efforts to pay for building repairs and to restore the financial stability of affordable rental housing developments in the metropolitan area. Both roles lead to a policy interest in how tax credit projects receive points and priority, and as such we submit the following comments on the proposed changes to the 2016 Qualified Allocation Plan.

First and foremost, the Family Housing Fund would like to congratulate and thank the Agency on a proposed plan that clearly reflects good work and nuanced thinking in all the proposed changes. The Fund would like to express support and more detailed feedback on changes in two specific areas: Preservation Scoring and Long-Term Homelessness.

5. Preservation Scoring

The Family Housing Fund strongly supports the proposed changes made to the Preservation scoring criterion. This area of the QAP appears much improved and reflective of the collaborations of funding partners through both the Minnesota Preservation Plus Initiative (MPPI) and the ISG to help move meaningfully toward a stronger emphasis on proactive, sustainable housing policy and practice. We specifically support the proposed new three-tiered threshold criteria for preservation. We agree this revised approach allows funders and owners to better identify strong preservation proposals based on location, community impact, and performance, rather than based simply on the imminence of the contract expiration or market conversion threat. We also greatly appreciate how the new system better acknowledges the importance and often collaborative nature of stabilization proposals.

However, we feel the new thresholds are missing a **critical** component. We strongly believe owners should be eligible for a look-back period in thresholds (2) Risk of Loss Due to Critical Needs and (3) Risk of Loss Due to Ownership Capacity. Without such a look-back, owners who may receive short-term or interim financing to address emergency needs, or owners who may proactively acquire a property with short-term acquisition financing due to various timing considerations that don't align with the Consolidated RFP process, from an owner with inadequate capacity, would be ineligible for these critical points. It is not uncommon for us as funders to encourage exactly this kind of activity, especially in the context of our common commitment to being more proactive about our preservation investments. We propose a look-back period of **three years** to reflect the realities of assembling permanent financing in these situations. We further recommend that eligibility for the look-back allowance could be determined through the mandated pre-application process.

A second concern, as Chair of the ISG as well as on behalf of the Fund, relates to Scoring section (2) Critical Affordable Units at Risk of Loss. We propose the addition of a new Section "2.c. Metro or Greater Minnesota ISG and Stewardship Council Priority." The proposed QAP acknowledges Funder Collaboration in Section 2.b., but it is troubling not to recognize the 20+ year coordinated efforts of these specific groups to preserve existing rental housing. The ISGs and Stewardship Council exist in part for the purpose of providing technical assistance to solve for issues related to the potential loss of affordable rental housing due to market, physical conditions, ownership capacity, and operating or supportive housing service funding gaps. Projects that meet the priorities of multiple funders are often identified through these processes. The time and efforts of these groups (both related to the funders and the owners) should be acknowledged, and points should be awarded to applications that can verify active collaboration through these groups. As chair of the ISG, I would commit to developing a verification process that meets the needs of the Agency. We propose 2-3 points for projects that have been actively working with the groups within the last 12 months.

Finally, the Fund does encourage the Agency to consider reducing the number of required other priority areas to claim and be awarded points in Section 2.a. from three down to two.

10. Permanent Housing for Households Experiencing Long-Term Homelessness
The Family Housing Fund strongly supports the proposed changes made to the Long-Term Homelessness criterion. The changes both align with the important priorities for multiple parties, including the Fund, identified in the "Heading Home" plan to prevent and end homelessness and acknowledge the difficulty our past collective efforts to end homelessness have had in addressing the needs of families and unaccompanied youth. We especially appreciate the bonus point emphasis on serving these groups specifically.

The Family Housing Fund appreciates the opportunity to comment, and is grateful for your thoughtful consideration of our feedback. We look forward to continuing to work in partnership with the Agency to coordinate and leverage all local resources to maximize the production and preservation of affordable rental housing in areas of highest strategic importance.

Sincerely,

Tom Fulton

Tom Fulton
President

Angie Skildum

Angie Skildum
Multifamily Policy & Portfolio Director
Chair, Interagency Stabilization Group

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March 17, 2014

Kayla Schuchman
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul MN 55101-1998

RE: Comments on the Proposed 2016 Housing Tax Credit Qualified Allocation Plan

Dear Ms. Schuchman:

The Greater Minnesota Housing Fund (GMHF) is a non-profit affordable housing intermediary serving the 80 counties of Greater Minnesota, and a long-standing annual funding partner with Minnesota Housing and others in the Super RFP. Since 1996, GMHF has awarded $50 million in gap financing to approximately 200 affordable multifamily developments, the majority of which have been tax-credit projects awarded through the competitive QAP process. This collaborative funding partner role leads to a policy interest in how tax credit projects receive points and priority each year. It is from this co-funder role and as advocate for Greater Minnesota communities that GMHF respectfully provides the following comments on the proposed Qualified Allocation Plan for 2016.

General Comments
GMHF congratulates and thanks Minnesota Housing and its staff for continually working to improve and refine the QAP. The proposed 2016 changes represent well-thought improvements throughout many point categories. The QAP reflects good data, nuanced thinking, and an overall responsiveness to affordable housing partners and developers concerns gained through feedback on the current QAP. GMHF also applauds the Agency's successful transition to a two-year QAP which allows developers a longer window to plan for and develop competitive projects. This moves the entire funding system to a more pro-active, well-planned approach to affordable housing creation and preservation.

Preservation Scoring
GMHF strongly supports the substantive changes made to the Preservation Scoring section. The introduction of the three-tiered threshold in place of the former "high" and "imminent" threat categories provides clearer guidance to potential applicants to identify projects needed in the community based on location, community impact, and project/owner performance rather than simply timing of the contract expiration or market conversion.

Comment #1: Consider look-back period
Due this change, however, GMHF strongly recommends the Agency consider a companion look back period which would not penalize preservation-oriented developers from responding proactively to imminent threats due to market conversion or ownership capacity, in advance of an RFP application for tax credits. A look-back allowance of two or three years would support the pro-active preservation efforts of owners who receive short-term or interim financing to address emergency needs, or owners who proactively acquire a property to preserve subsidies from imminent loss. For example, in Greater Minnesota there are preservation-worthy properties with federal subsidies and Rental Assistance in the USDA Rural Development program which are at-risk for loss due to owners opting out of the USDA restrictions. The window for preservation action in some cases is as short as 6 months before an owner is allowed to exit the program and subsidies are permanently lost. GMHF, USDA RD, and the Agency have

responded in some key instances with substantial gap subsidies to preserve these properties on a pipeline basis, but because of the urgency of loss and timing of the RFP few have been competitive for tax credits. Including a look-back provision within the QAP would allow for better use of state subsidies, and would support the Agency and funding partner's joint commitment to supporting pro-active preservation. GMHF recommends the agency consider a look-back period of three years. We further recommend that eligibility for the look-back allowance could be determined through the newly mandated pre-application process.

Comment #2: Reduce Critical Units at Risk to Two Additional Categories
Under Preservation Section 2.a, GMHF recommends reducing the additional criteria to be met from three down to two (***Economic Integration, Minimizing Transportation Costs and Promoting Access to Transit, Workforce Housing Communities, Temporary Priority – Foreclosed Properties)*** to allow properties in Greater Minnesota to compete more effectively, without disadvantage.

Comment #3: Clarify Funder Collaboration process and eliminate conflicts
Further in the Preservation Section, a new category of Funder Collaboration has been introduced. The intent of this section appears to be for the Agency to better determine current funders' support of the priority of each preservation application. GMHF supports the concept of determining funder support at time of application; however the process as proposed in this draft removes the coordinated approach of multiple funders that has been set up through the Agency's support of the existing Interagency Stabilization Groups (ISGs). GMHF is co-chair to the Greater Minnesota ISG, along with Minnesota Housing. This is a coordinated, multi-agency advisory group supported by the Agency as a conduit for addressing troubled or at-risk existing affordable housing projects. In Greater Minnesota, the ISG serves as a bi-monthly convening between funders (Minnesota Housing, HUD, USDA, GMHF, key other participants) to discuss projects at risk, and to jointly determine which projects can be preserved or stabilized with a joint commitment and/or workout scenarios. The ISG acts as a one-stop coordinating body, and it has been effective in coordinating the separate efforts of individual funders. As the 2016 QAP was being drafted and GMHF was solicited for input, we supported the introduction of a new "funder collaboration" section, to give weight and emphasis to projects that were collaboratively supported via the ISG. However the current language as proposed reduces this collaboration back down individual funder determinations. As written, this section undercuts the coordinated purpose of ISG, and removes the original intent of the proposed section which was to *provide additional points to projects that have clearly coordinated support from multiple funders*. GMHF recommends the agency reconsider the language and process outlined in this section to emphasize a coordinated approach.

In addition, as written the Agency needs to clarify how individual funder letters can be submitted for a project by RFP funders who also have a seat at the selection table. It appears that providing a letter of support at application would conflict with the neutrality required of GMHF and other funders who are also selecting projects for RFP funding later in the process. It is unclear how GMHF or other RFP funders responding to a developer's request for a letter of support can do so without conflicting with the exclusion that RFP funders are normally not allowed to provide pre-commitments (as currently excluded under Federal, Local/Philanthropic contributions). If the intent of the exclusion under the F/L/P section has been to remove the conflict of interest, it appears allowing such as letter of support in this section would also be a conflict of interest. A consistent approach to funder support should be maintained throughout the QAP point sections. GMHF encourages the Agency to reconsider the draft language as proposed, and institute a clearer process that will not put co-funding partners in a conflict of interest position. This could include consultation with RFP funders to determine a better, more coordinated process that both supports the existing collaborations, and removes any potential conflicts of interest among selection partners.

Thank you for the opportunity to comment on the 2016 Qualified Action Plan. GMHF appreciates our long-standing partnership with Minnesota Housing and the consideration of our comments as a co-funding partner in the Consolidated RFP.

Sincerely,

Robyn Bipes
Director of Programs & Lending
Greater Minnesota Housing Fund

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March 17, 2014

Minnesota Housing Finance Agency
Multifamily Underwriting
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400 Sibley Street, Suite 300
St. Paul, MN 55101-1998]

RE: Proposed Revisions to the Qualified Allocation Plan (QAP) and Procedural Manual, 2016 Housing Tax Credit (HTC) Program

Dear Ms. Schuchman,

Thank you for the opportunity to comment on this year's proposed revisions to the 2016 QAP. We appreciate the effort that was clearly made to clarify the existing priorities and streamline the scoring process. Our organization has chosen to comment only on those areas where we feel we have substantive input. The numbering of the items corresponds to the numbering in the Proposed Revisions to the QAP.

2. Revise the definition of , and requirements for, Community Revitalization in the Procedural Manual and Self-Scoring Worksheet.

- We think it is very helpful that the Agency has provided clarification of what meets the definition of a revitalization plan. Unfortunately, the way in which the definition is clarified will make it difficult to meet the definition in the larger cities of Minneapolis and St. Paul. St. Paul for example has numerous Small Area Plans which are no longer allowed as support for revitalization even though some of the plans are very specific about the importance of preservation of affordable housing in the area while others don't have the same focus. While these Small Area Plans may be somewhat generic in their general format they are by no means generic in the specifics of their plans. Furthermore they are neighborhood driven and thus represent the objectives of the local constituency and the broader local jurisdiction of St. Paul. These plans are updated over a very long timeline and may never meet the specifics outlined in the MHFA clarification to the Procedural Manual. This however does not lessen the importance of the preservation of affordable housing as a goal in these communities.

5. Revise priorities under the Preservation of Federally Assisted Units, Preservation of Existing Housing Tax Credit Units, and Stabilization, creating one Preservation scoring criterion.

- We do not believe all developments claiming points under the Preservation scoring criterion should be required to submit dual competitive 9% and 4% tax exempt bond applications. Evaluating a project as a 4% tax credit deal requires a significant amount of time and expertise. The Agency likely has the information necessary to allow it to develop criteria for potential projects that may be viable 4% deals. Those criteria could include size of a deal, required level of rehabilitation, the amount of subsidy that the Agency would be willing to commit given the lower amount of credit etc. We would encourage the Agency to attempt to develop such criteria before implementing a dual application process. In addition, we recommend that the Agency consider eliminating any absolute requirement for a dual application and rather, if projects meet certain criteria, require a meeting with the developer to discuss a 4% transaction. This could occur at the time of the mandatory technical assistance but ideally the Agency would be willing to meet much earlier than that, given the rime required to evaluate a project as a potential 4% deal and develop a second application.

8. Clarify Cost Containment scoring criterion.

- We continue to believe that the assumption of existing deferred debt as part of acquisition rehab projects should be excluded from TDC. As is demonstrated below, it can contribute significantly to TDC yet it does not use the limited affordable housing cash resources.

  We looked at several recent projects where debt assumption was a component of acquisition cost and the results are summarized in the table below.

Project	Assumed Debt per Unit	Assumed Debt	# of Units
Capitol City Town Homes	$76,552	$5,282,117	69
Homewood Apartments	$50,974	$1,835,087	36
East Side Commons	$47,941	$2,445,000	51
St. Philip's Gardens	$29,464	$1,750,000	56
St. Alban's Park	$20,391	Est. $1,509,000	74

Note that the Capitol City project was one of the early tax credit projects and had deferred debt with relatively high interest rates, and some with compounding interest rates. Thus the amounts above include principal and significant accrued interest. While there not likely many other projects with this level of deferred debt, the other projects noted above also have significant amounts of deferred debt on a per unit basis. Unless the deferred lenders are willing to forgive these loans, there is little that a developer can do to mitigate this component of TDC, which again does not use cash.

Two of these projects also had expiring Section 8 contracts which were preserved.

Assumed debt that is part of acquisition basis may or may not result in tax credits to the project. That can vary widely from project to project and depend on the other components of acquisition cost and the level of rehab credits generated. So there could be agency resources "used" associated with these costs but we think that they would generally be limited.

If preservation is a priority then the agency may want to reconsider the inclusion of assumed debt in TDC.

9. Replace the Special Populations priority under the Household Targeting scoring criterion with a Universal Design scoring criterion.

- We understand the desire to incorporate Universal Design in other projects rather than create housing specifically for households with disabilities. It seems that these points may almost exclusively be available to new construction or adaptive reuse projects. The Minimum Essential Universal Design Features makes Universal design difficult to incorporate into a high percentage of rehabilitation projects. Specifically the requirement of one bedroom on an accessible level, the 42" minimum hallway requirement and the three quarter bath with five foot open radius requirements are the main challenges in a rehabilitation project. These design features could potentially be accomplished if two units adjacent to one another were combined and completely redesigned. So the question would be whether the benefit of Universal Design Units in these rehabilitation projects outweighed the cost of the loss of affordable units as a result of the combining of units. Combining units would not likely be considered if the rehabilitation project was of a 100% Section 8 property given the resultant loss of subsidy.

Thank you for your consideration.

Sincerely,

Barbara M. McQuillan

Barbara M. McQuillan
Executive Director

WASHINGTON COUNTY HOUSING AND REDEVELOPMENT AUTHORITY

March 14, 2014

Kayla Schuchman
Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: 2016 HOUSING TAX CREDIT ALLOCATION PLAN

Dear Kayla,

Thank you for the opportunity to provide comments on the proposed changes to the state's Qualified Allocation Plan for 2016 Low Income Housing Tax Credits.

The Washington County HRA is concerned about the ability of suburban applicants to be competitive in the state's application process in two general areas. First, the revisions to the Minimizing Transportation Costs and Promoting Access to Transit (Metro Area) scoring criterion create an unfair disadvantage to tax credit proposals located in suburban areas, particularly in Washington County. Second, if the HRA, as a sub-allocator, selects a senior development serving households at 30% AMI as its top selection, we are concerned that the development will not receive equal priority for additional credits or subsidy funds, because it is a senior development.

Minimizing Transportation Costs and Promoting Access to Transit (Metro Area)
This criterion is proposed to expand from 5 points to 11 points. The revised language and the increased weight cause concern for the following reasons:

1. If the housing site is not along the Hiawatha, Central Corridor, Southwest LRT, Northstar lines or by a Cedar Ave and 1-35W BRT line, the applicant is immediately at a 5-point scoring disadvantage. To claim many of the points, a site must first be located in proximity to an LRT, BRT or commuter rail station (5 points). If a site meets that criterion, then the application may be eligible for 4 additional points for limited parking, building orientation and connections, density, and alternative means. This proposed change creates a disincentive to locate affordable housing in many suburban cities. There are no locations in Washington County that would qualify for these points. There are also no hi-frequency transit network proximate sites in Washington County. In a highly competitive application round, these 7 points could eliminate an equally valuable proposal in Washington County from consideration. Further, there are sites where LRT, BRT or commuter rail stations are under evaluation. The HRA wants to encourage developers to design sites to accommodate future transit oriented design, and the proposed structure would be a disincentive.

2. If the housing site is proposed in an area where there is a low to medium density of retail and other amenities, the applicant will lose the possibility of 2 points. This places a disadvantage on suburban and new construction projects where there is not enough density for retail, transit and other amenities to be built. It is proposed that 1 to 2 points be awarded for a medium and high walkability score within this same criterion. The average Walk Score for larger Washington

County cities are: Woodbury (16), Cottage Grove (14), Oakdale (17), Forest Lake (14), and Stillwater (33). Not one of the affordable housing developments built since 2008 or proposed to be built in Washington County would receive points under this criterion. The highest Walk Score for these developments is 46 for a proposed redevelopment project in Mahtomedi. There may be some data issues with WalkScore.com site. The website did not recognize a newer (2012) address in Forest Lake. When the address was inputted, the map shown located the site near but not at the actual property and returned a different Walk Score than an adjacent property, where the address was recognized.

Please consider allowing any application to claim the Transit Oriented Development measures, not just those applications with LRT, BRT or commuter rail station proximity. The TOD measures are actions that a developer could chose to and be incented to do regardless of the regional transit investment in the location where housing is in demand. Please further consider eliminating the Walkability points. These points generally mirror the locational points of the Access to Transit criteria and create a bigger gap between housing located in established neighborhoods and those in growing neighborhoods.

Age Restricted Housing Serving Seniors at 30% AMI Rent and Income Levels

Like other communities in Minnesota, the Washington County HRA is actively researching how it can meet the variety of housing needs for seniors, especially low income seniors. The HRA has successfully worked with the private sector to construct affordable work force/family developments in the county, but unfortunately, building affordable senior housing has had limited success. Since 2001, only 150 units of affordable senior housing have been constructed in Washington County. Three-quarters of those units (110 of 150) were financed by sources that no longer exist (Recovery Zone Bonds and Tax Credit Assistance Program). The 4% tax credit provides too little equity and forces a significant funding gap if the development serves households at 50% AMI, and a larger funding gap at 30% AMI levels, even with substantial financial participation from the HRA and local communities.

There is an existing provision in the tax credit statute that can serve low income seniors, but changes will need to be made in order to make it effective. State statute in the metropolitan area requires that age restricted developments have at least 75 percent of the total tax credit units as single room occupancy units affordable to households whose income does not exceed 30% AMI. Rent levels also must be at 30% AMI, which means these developments will need subsidy funds for operating costs as well as construction costs.

It is recommended that Minnesota Housing provide an equal priority, and/or additional point opportunities, when considering a proposal for supplemental housing tax credits and/or gap financing if a Sub-Allocator's top tax credit selection is a senior (age restricted) development serving low income seniors at 30% AMI. The state's investment will be leveraged several fold because there will be several other public financial sources in the construction costs, including local county HRA and municipal financial participation. Further, state financial participation in this type of project furthers its overall mission of serving low income households, and from timing perspective, would create the potential for a development to achieve full funding in one year, thereby enabling the sub-allocator to use the following year's credits for another development.

It should be noted that in its 2013-2015 Strategic Plan, Minnesota Housing identified "addressing specific and critical needs in rental housing markets" as one of its five Strategic Priorities. The Plan specifically indicated that data, insight, and analysis identified "housing for seniors in aging communities" as a critical rental housing need in specific communities. Without the state's help through the housing tax credit program, the need will get larger and more expensive to address. The HRA is very concerned that there is no clear adequate production option for communities to meet the needs of low income seniors.

Thank you again for the opportunity to comment. If you have any questions, please call me at (651) 458-0936 or email me at bdacy@wchra.com.

Sincerely,

Barbara Dacy
Executive Director

WORKING TOWARD
JUSTICE FOR ALL

MID-MINNESOTA LEGAL AID
MINNESOTA DISABILITY LAW CENTER
Duluth Fertile Grand Rapids Mankato Minneapolis
Sean Burke ▪ (612) 746-3759 ▪ sburke@mylegalaid.org

TO: **Minnesota Housing Finance Agency**

FROM: **Sean Burke, Minnesota Disability Law Center/Mid-Minnesota Legal Aid (MDLC)**

RE: **Written Comments on 2016 Proposed QAP Changes**

DATE: **March 17, 2014**

Mid-Minnesota Legal Aid (MMLA) is designated by the Governor as the federally mandated Protection and Advocacy entity for Minnesota, and it carries out this function through its statewide program, the Minnesota Disability Law Center (MDLC). We submit comments on the proposed changes to the 2016 QAP, and specifically the proposal to "Replace the Special Populations priority under the Household Targeting scoring criterion with a Universal Design scoring criterion."

We applaud the addition of the Universal Design criterion and agree with the overall rational for this proposal. We especially agree with the principal stated in the QAP that Minnesotans with disabilities should have access to the range of housing options, rather than be limited only to projects or buildings specifically designated for people with disabilities.

Based on the recommendation to replace the Special Populations set-aside, it appears QAP staff believes this tool is either ineffective or contrary to this goal of creating a larger range of options and meeting the integration requirements of Olmstead. While we acknowledge concerns with the current Special Populations set-aside, it still presents an important opportunity to forward the goals of the Minnesota Olmstead Plan. Other states have successfully targeted to disabled populations with similar set-asides incentives.[1] We strongly encourage MHFA to keep the Universal Design criterion, but also keep and amend the Special Populations set-aside rather that replacing it all together. We have three main concerns:

1) **Over-Saturation of Disability Specific Set-Asides:**
    a. We would agree that as currently designed, the Special Populations priority does not do enough to support the integration principals of Minnesota's Olmstead Plan.

[1] See Strategies for Creating Integrated Supportive Housing for People with Disabilities, Prepared by the Technical Assistance Collaborative, Feb. 2013. Available at: http://www.neweditions.net/housing/documents/StrategiesforCreatingIntegratedSupportiveHousingforPeoplewithDisabilities.pdf. Among other case studies, this brief highlights the success of North Carolina's targeting program in creating nearly 2,500 units since 2002 set aside for extremely low-income households with disabilities. The program combines LITC with state appropriated operating expenses for project-based rental assistance to ensure units are affordable to disabled and frail elderly populations receiving Medicaid-financed services and supports.

To avoid projects that offer an over-concentration of disability-specific units or set-asides, the percentage target should be capped. For example - points could be given to projects that set-aside and rent out *between* 10%-25% of the units to special populations.

2) **Affordability and Use of the Set-Asides:**
   a. It is true that many persons who would qualify for the set-aside units on the basis of their disability, could nonetheless not afford the reduced rent because they only receive Supplemental Security Income or otherwise qualify as extremely-low income. Rather than doing away with the set-aside, however, MHFA should consider designating some other percentage of the Special Population set-asides be made affordable for persons with extremely low-incomes.[2]

   b. Additionally, MHFA should explore ways to ensure eligible persons are also qualifying for all other possible housing benefits. An important feature of the tax credit tool is the ability to layer the subsidy it provides with other housing subsides. Minnesota's Olmstead plan acknowledges that additional subsidies, not just affordable units, are critical to advancing the principals of integrated housing options and outlines a plan to reform the two current state housing subsidy programs: GRH and MSA-Housing Assistance. With enough planning, there will be a substantial population of persons in the Special Population categories with very low-incomes who could also qualify and receive a state housing subsidy so as to layer the subsides and afford the rent. While we believe that transferable subsidies individuals can take with them are preferable to project-based assistance, state assistance with project-based funding may also help with the creation of affordable set-asides for extremely-low income populations.

   c. To the extent that set-aside units may not always get filled in a timely matter, MHFA should work with the Department of Human Services, counties, and non-governmental organizations to make sure qualifying individuals and their representatives know about the open units. Housing-specific case management tools, such as an improving Housing Link website and specialty housing coordinators are ongoing initiatives that will help match developers with open units and qualifying individuals. With a moratorium on Corporate Foster Care licensing and the Olmstead's Plans push to promote the most integrated settings for people, there is more than enough demand for set-aside units, especially those targeting extremely low-income disabled populations.[3]

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[2] The affordability criteria could also be tied to eligibility for Medical Assistance or Home and Community Based Services under Medical Assistance – which would cover a large percentage of the extremely low-income persons who qualify as a member of the Special Population category.

[3] See, for example, the Department of Human Services report entitled <u>County Gaps analysis Survey for Disability Services,</u> available in full report form or on a per county basis at: <u>http://www.dhs.state.mn.us/main/idcplg?IdcService=GET_DYNAMIC_CONVERSION&RevisionSelectionMethod=LatestReleased&dDocName=dhs16_179885</u> . The survey notes that at least 60% of counties responded that there is either no availability or limited availability to subsidized housing for persons with disabilities that the county serves.

3) **Universal Design criterion is not in itself an adequate replacement for Special Population Set-Asides:**
   a. The Universal Design criterion will help develop more accessible units, but it is a complement, not a replacement for Special Population set-asides. The Universal Design criterion will be especially helpful for increasing the housing stock for persons with physical disabilities. Without specific set-asides for other disabled populations, including intellectual and developmental disabilities, brain injuries, mental health disabilities, and chemical dependency issues, we fear the extreme shortage of affordable units availability for this population will continue to dwindle.

   b. Granting points for projects that mix universal design with deeper rent restrictions, federal assistance, or other rental assistance is also an important step to ensure these units will be available to low-income disabled individuals. However, this does not appear to solve the issue of needing to target not only to disabled populations, but to disabled persons on SSI or with otherwise extremely low-incomes. As mentioned above, further targeting for this extremely low-income group and creative use of state housing subsidies are some potential solutions to this problem.

Overall, we applaud the effort that MHFA has put toward implementing the goals and principals of Minnesota's Olmstead Plan. We strongly encourage reconsidering this specific approach, however, and looking at ways in which the Universal Design Criterion can complement, not replace, a revised set-aside for Special Populations and Special Populations with extremely low-incomes.

Please feel free to contact me with any questions or clarifications.

Sincerely,

Sean Burke
Attorney - MN Disability Law Center

Community Economic Integration Methodology

Community economic integration is defined by Minnesota Housing in two tiers based on median family income and access to jobs.

For applicants to be awarded 7 or 9 points for community economic integration, the proposed housing needs to be located in a community (census tract) with the median family income meeting or exceeding the region's[1] 40th percentile based on data published in the American Community Survey (ACS) for 2012. For each region, the 40 percent of census tracts with the lowest incomes are excluded from receiving points. The census tract must also meet or exceed a regional threshold for low and moderate wage jobs[2] within five miles based on data published by the Local Employment Dynamics program of the US Census for 2011. For each region, the census tracts with the fewest low and moderate wage jobs within five miles also are excluded[3]. To promote economic integration, the criteria identify higher income communities that are close to low and moderate wage job centers.

This document includes maps of the census tracts that meet the following two tiers of community economic integration as well as a list of census tracts by county for each tier. Maps 1 and 2 display the census tracts that meet these criteria, and the corresponding tables show the total number of jobs to achieve the threshold and both the 40th and 80th percentile for median family income by region . Interactive tools will be made available to assist applicants and staff in determining their location in these areas, through the community profiles at www.mnhousing.gov > Policy & Research > Community Profiles.

First Tier Community Economic Integration – 9 Points

Meet or exceed the 80th percentile of median family income and meet or exceed the 20th percentile of low and moderate wage jobs within 5 miles in Greater Minnesota and the 10th percentile of low and moderate wage jobs within 5 miles in the Twin Cities Metro.

Second Tier Community Economic Integration – 7Points

Meet or exceed the 40th percentile of median family income (but less than the 80th percentile) and meet or exceed the 20th percentile of low and moderate wage jobs within 5 miles in Greater Minnesota and the 10th percentile of low and moderate wage jobs within 5 miles in the Twin Cities Metro. Table 1 – Jobs and Median Family Income Thresholds by Region.

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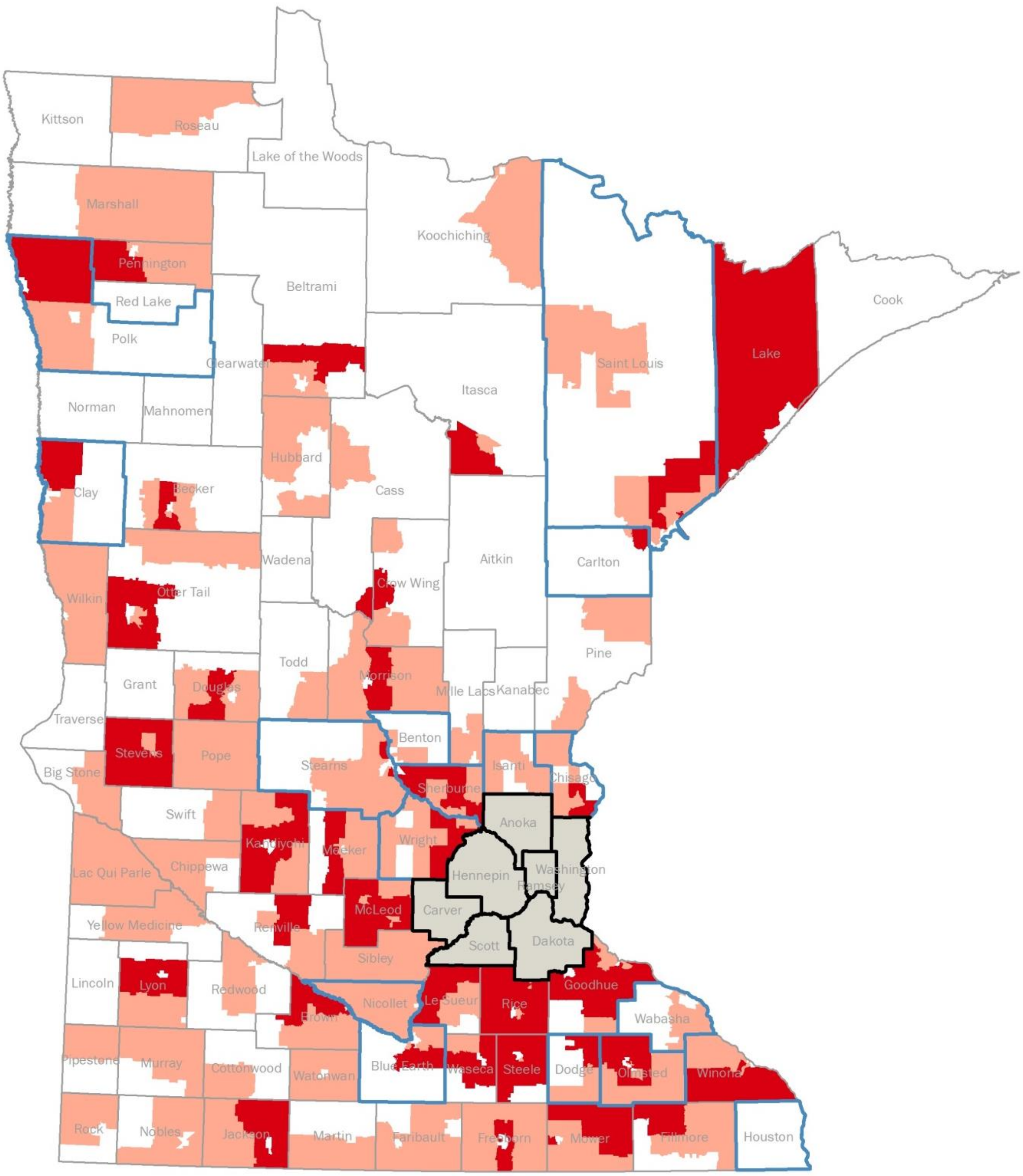
[1] For the purpose of assessing income and access to jobs, Minnesota Housing is defining three regional categories based 1) Twin Cities 7 County Metropolitan Area, 2) Counties making up Greater Minnesota MSAs, including: Duluth, St. Cloud, Rochester, Mankato/North Mankato, Grand Forks, and La Cross, the four Twin Cities MSA counties outside of the 7 county metro, and 3) Balance of Greater Minnesota. The purpose of the regional split is to acknowledge that incomes and access to jobs varies by region. A higher income community close to jobs in the metro is very different than a higher income community close to jobs in rural Greater Minnesota.

[2] Low and moderate wage jobs are those with a monthly earning less than or equal to $3,333, using LED data from the US Census (2011).

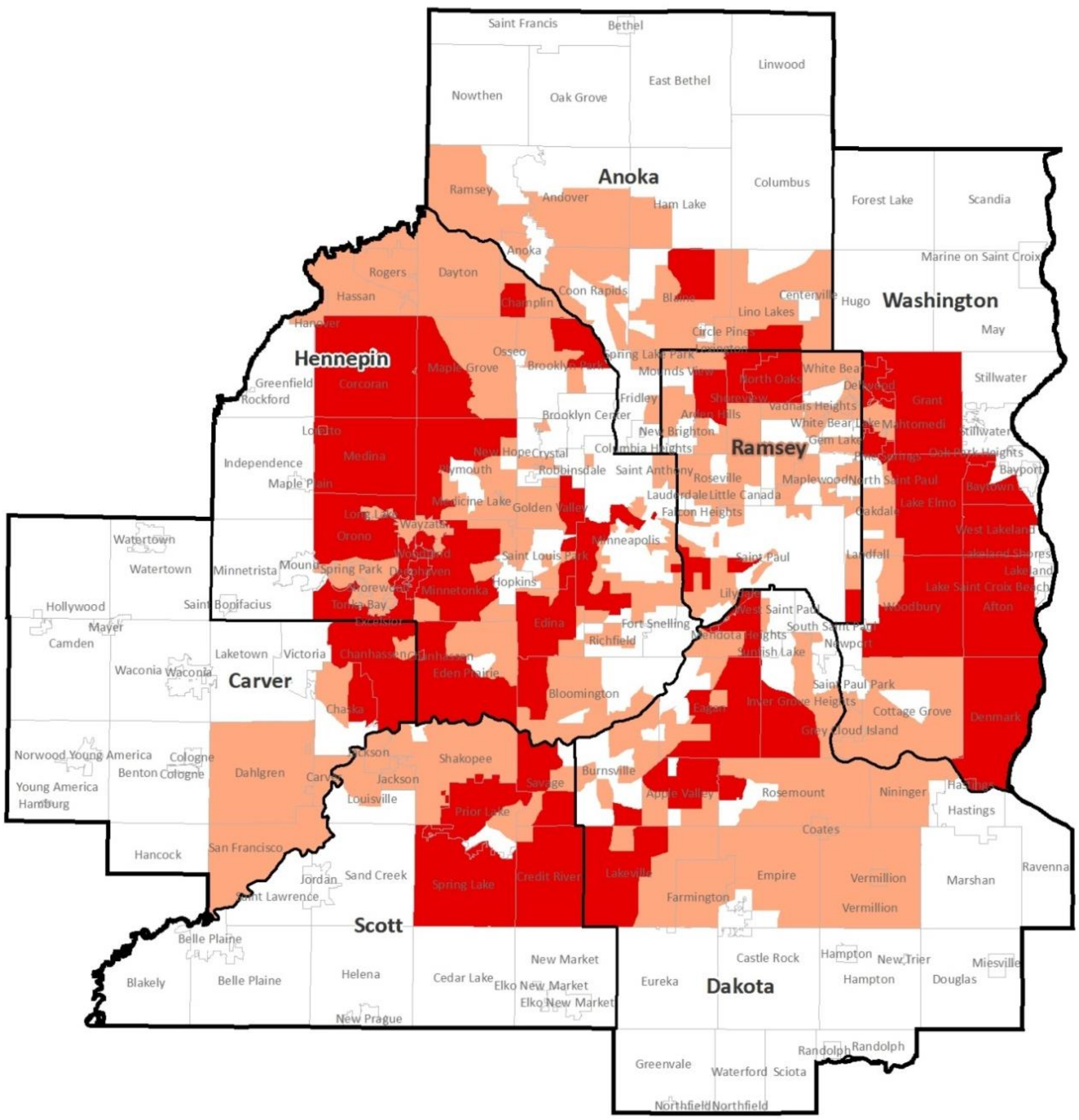
[3] In the case where an urban-sized Census tract (less than 25 square miles) is completely surrounded by a census tract that meets this eligibility, it is also identified as having access to jobs. This occurred in 11 census tracts within the cities of Blue Earth, Byron, Crookston, Kasson, Long Lake, Mahtomedi, Stewartville, and Two Harbors.

Community Economic Integration *(Twin Cities Metro on next page)*	Non Metro MSAs (Outlined in Blue)	Greater Minnesota
Jobs within 5 miles / 20th percentile	3,839	1,853
Med Family Income / 40th percentile	$64,071	$58,021
Med Family Income / 80th percentile	$79,844	$68,105

MAP 1 – CENSUS TRACTS MEETING REGION'S 40TH AND 80TH PERCENTILE THRESHOLDS FOR MEDIAN INCOME & 20TH PERCENTILE FOR LOW AND MODERATE WAGE JOBS WITHIN 5 MILES



MAP 2 – TWIN CITIES 7 COUNTY METRO DETAIL - CENSUS TRACTS MEETING REGION'S 40TH AND 80TH PERCENTILE THRESHOLDS FOR MEDIAN INCOME & 10TH PERCENTILE FOR LOW AND MODERATE WAGE JOBS WITHIN 5 MILES



	Twin Cities 7 County Metro
Jobs within 5 miles / 10th percentile	17,976
Med Family Income / 40th percentile	$72,930
Med Family Income / 80th percentile	$104,531

Census Tract Listing by County for Economic Integration
(denotes tract achieves second tier)*

Anoka	
502.37	
506.05	
506.09	
506.1	
507.04	
507.07	
507.1	
507.11	
507.12	
508.09	
508.11	
508.13	
508.16	
508.21	
509.02	
510.01	
510.02	
512.03	
502.24	
502.27	
502.28	
502.21	
502.22	
502.29	
504.01	
508.2	
502.19	
502.3	
502.2	
502.08	
502.26	
502.23	
502.15	
508.19	*
508.18	*
502.36	*
Becker	
4503	
4504	*
4506	
4507	*
4508	
Beltrami	
4501	
4502	
4503	*
4507.01	
Benton	
202.05	
203	
211.01	
Big Stone	
9501	
Blue Earth	
1701	
1702	
1708	
1713	*
1716	*
Brown	
9601.01	
9602	*
9604	*
9605	
9607	
Carlton	
701	
703	*
Carver	
906.01	
906.02	*
907.01	*
907.02	*
911	
908	
909	*
905.03	*
905.02	*
905.01	*
Cass	
9400.01	
9608.01	*
Chippewa	
9503	
9505	
9506	
Chisago	
1101	
1102	
1104.01	
1104.02	
1105.01	
1105.02	
1106	*
Clay	
205	*
301.04	
301.06	
301.07	*
Cottonwood	
2703	
Crow Wing	
9505.01	*
9509	*
9513.01	*
9513.02	
9514	
9517	
Dakota	
601.03	
604.01	
605.06	
605.07	
605.08	*
606.03	*
606.04	*
606.05	
606.06	*
607.09	
607.13	
607.14	
607.16	*
607.17	*
607.21	
607.26	
607.27	
607.28	*
607.29	*
607.3	*
607.31	*
607.32	*
607.33	
607.34	*
607.35	
607.38	
607.42	*
607.44	
607.45	
607.48	
608.06	*
608.11	
608.12	
608.13	*
608.14	
608.16	*
608.17	
608.19	*
608.22	*
608.23	*
608.24	*
608.25	*
610.03	
610.01	
605.09	
608.18	
609.02	
609.07	
609.06	
608.29	
608.26	
608.21	
610.04	*
608.15	*
608.2	*
Dodge	
9501	*
9504	
9505	
Douglas	
4502	
4505	
4507.01	
4507.02	
4508	
4509	*
4510	*
Faribault	
4601	
4603	
4605	
Fillmore	
9601	
9602	*
9604	
9606	
Freeborn	
1801	
1802	
1803	
1804	*
1807	*
1810	
Goodhue	
801.02	*

802	
803	*
804	*
805	*
808	
809	*
Hennepin	
3	
6.03	
81	
106	*
107	*
110	
117.03	
117.04	
118	
119.98	
120.01	
201.01	
201.02	
208.01	
209.02	
210.02	
215.04	
216.01	
216.02	
217	*
218	*
219	
222	
223.01	
228.01	*
228.02	
229.01	*
229.02	*
230	
231	*
235.01	
235.02	*
236	*
237	*
238.01	*
238.02	
239.01	*
239.02	*
239.03	*
240.03	
240.04	
240.06	*
242	
244	
245	
248.01	
253.01	
256.01	
256.03	
256.05	
257.01	
257.02	
258.01	
258.02	
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259.03	
259.05	*
259.06	*
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260.13	*
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261.01	
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263.01	*
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265.09	*
265.1	
265.12	
266.05	*
266.06	*
266.09	
266.1	*
266.11	
266.12	*
266.13	*
267.06	
267.07	
267.08	
267.1	
267.11	
267.12	
267.13	
267.14	*
267.15	*
267.16	*
268.11	
268.12	
268.2	*
268.22	*
268.23	
269.03	
269.06	
269.07	*
269.08	
269.1	
271.01	*
271.02	*
272.01	*
272.02	
272.03	
273	
274	*
275.01	
275.04	*
1012	
1031	
1036	
1037	
1039	*
1051	*
1052.01	
1054	
1055	*
1065	*
1066	
1075	
1076	
1080	
1089	
1090	*
1091	*
1098	*
1099	
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1111	
1112	*
1113	*
1114	*
1115	*
1116	*
1226	
1256	
1261	*
1262	*
269.09	
275.03	*
Hubbard	
701	
702	
707	
Isanti	
1301	
1303.01	
1303.02	
1304	
1305.02	
1306	
Itasca	
4807	*
4808.01	
4808.02	
Jackson	
4801	*
4802	
4803	
Kandiyohi	
7801	*
7802	
7803	
7804	*
7806	*
7807	*
7811	
7812	*
Koochiching	
7902	
7903	
Lac Qui Parle	
1801	
1802	
1803	
Lake	
3701	*

Le Sueur	
9501	*
9502	*
9503	
9505	
9506	*
Lyon	
3602	*
3603	*
3604	*
3606	
Marshall	
801	
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Martin	
7903	
7904	
7905	
McLeod	
9501	
9502	*
9503	
9504	*
9505	*
9506	*
9507	
Meeker	
5601	
5602	
5604	
5605	*
Mille Lacs	
1704	
1706	
Morrison	
7802	
7803	*
7804	
7805	
7808	
Mower	
1	
2	*
9	*
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13	
14	*
Murray	
9001	
9003	
Nicollet	
4801	
4802	
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4805.01	
4805.02	
4806	
Nobles	
1051	
1053	
1056	
Olmsted	
1	*
4	*
5	
9.01	
9.02	
9.03	*
10	
11	*
12.01	*
12.02	*
12.03	*
13.01	*
13.02	*
14.02	*
15.01	*
15.02	
15.03	*
16.01	
16.02	*
16.03	*
17.03	*
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23	*
Otter Tail	
9601.02	
9601.03	
9604	
9605	
9608	*
9610	
9611	
9617	*
Pennington	
901	
903	*
905	
Pine	
9501	
9506	
Pipestone	
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Polk	
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Pope	
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Ramsey	
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376.01	
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405.03	
406.01	*
406.03	
407.03	
407.04	
407.05	
407.06	*
407.07	*
408.01	*
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411.04	
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421.02	
422.02	
423.01	
424.02	
425.03	*
425.04	
426.01	
426.02	
429	*
430	*
Redwood	
7502	
7504	
Renville	
7902	*
7905	
7906	
Rice	
701	*
702	*
703	*
704	*
705.01	*
705.03	*
705.04	
706.01	
706.02	*
707	
708	*
Rock	
5701	
Roseau	
9701	
9702	
9703	
Saint Louis	
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106	*
111	
128	
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151	
152	
157	
Scott	
802.01	*
802.02	*
802.03	
802.05	*
803.01	
803.02	

805	
810	*
802.04	
806	
809.06	
807	
809.03	*
809.05	*
Sherburne	
301.01	
301.02	
302	*
303	*
304.02	
304.03	*
304.04	
305.02	*
305.03	*
305.04	*
Sibley	
1701.98	
1702	
1703	
1704	
Stearns	
4.01	
4.02	*
10.01	
101.01	*
101.02	*

102	
111	
112	
113.01	
113.02	
113.04	
114	
116	*
Steele	
9601	*
9602	*
9603	*
9605	*
9606	
9607	*
Stevens	
4801	*
4802	
4803	*
Swift	
9601	
Todd	
7905	
7908	
Wabasha	
4902	
Waseca	
7901	
7903	*
7904	*

Washington	
703.01	*
703.03	*
703.04	
704.03	*
704.05	*
704.06	*
709.06	
709.09	
709.1	
709.11	
710.18	*
710.06	
712.06	
714	
712.07	
710.13	
710.1	*
710.17	*
710.14	*
710.15	*
710.16	*
707.01	*
710.11	*
711.02	*
Watonwan	
9501	
9503	
Wilkin	
9501	

Winona	
6701	
6702	
6703	*
6704	
6706	
6708	*
6709	*
6710	*
Wright	
1001	
1002.02	*
1002.03	*
1002.04	*
1003	
1005	
1007.01	
1007.02	
1007.03	
1008.01	*
1008.02	*
1009	*
1010	*
1011	
1013	
Yellow Medicine	
9701	
9703	

Workforce Housing Communities Methodology

Communities with a need for workforce housing are identified through total jobs in 2012 and job growth between 2007 through 2012. Data on jobs are from the Minnesota Department of Employment and Economic Development's Quarterly Census of Employment and Wages[1]. Workforce housing areas are defined separately for the Twin Cities Metro (7 County) and Greater Minnesota. The following sections describe the eligible communities and buffers around these communities for the two regions. Applicants will find interactive maps to identify whether a property falls within these areas at Minnesota Housing's website: www.mnhousing.gov > Policy & Research > Community Profiles.

1. **Twin Cities Metro**

To be identified as a community needing workforce housing in the Twin Cities, the top five communities in total jobs in 2012 and the top 10 communities in job growth between 2007-2012 are selected. To meet the job growth definition, communities must meet or exceed 2,000 jobs in 2012. Areas within five miles of the communities are included for a modest commuteshed. Table 1 below and the map on page 3 show the communities that meet this definition.

Table 1 - Twin Cities Metropolitan Area Workforce Housing Communities

Top Communities in Total Jobs 2012
Bloomington, Hennepin
Eagan, Dakota
Edina, Hennepin
Minneapolis, Hennepin
Saint Paul, Ramsey

Top Communities in Job Growth 2007-2012
Brooklyn Park, Hennepin
Chanhassen, largely Carver
Edina, Hennepin
Golden Valley, Hennepin
Hopkins, Hennepin
Maple Grove, Hennepin
Minneapolis, Hennepin
Mounds View, Ramsey
Oak Park Heights, Washington
Oakdale, Washington

[1] http://mn.gov/deed/data/data-tools/qcew.jsp

2. Greater Minnesota

To be identified as a community in need of workforce housing in Greater Minnesota, cities must meet or exceed 2,000 jobs in 2012. The top ten communities in total jobs and the all communities with any job growth between 2007-2012 are included in the definition[2], and a buffer of ten miles around the communities supports a modest commuteshed. Table 2 below and the map on the following page show the communities that meet this definition.

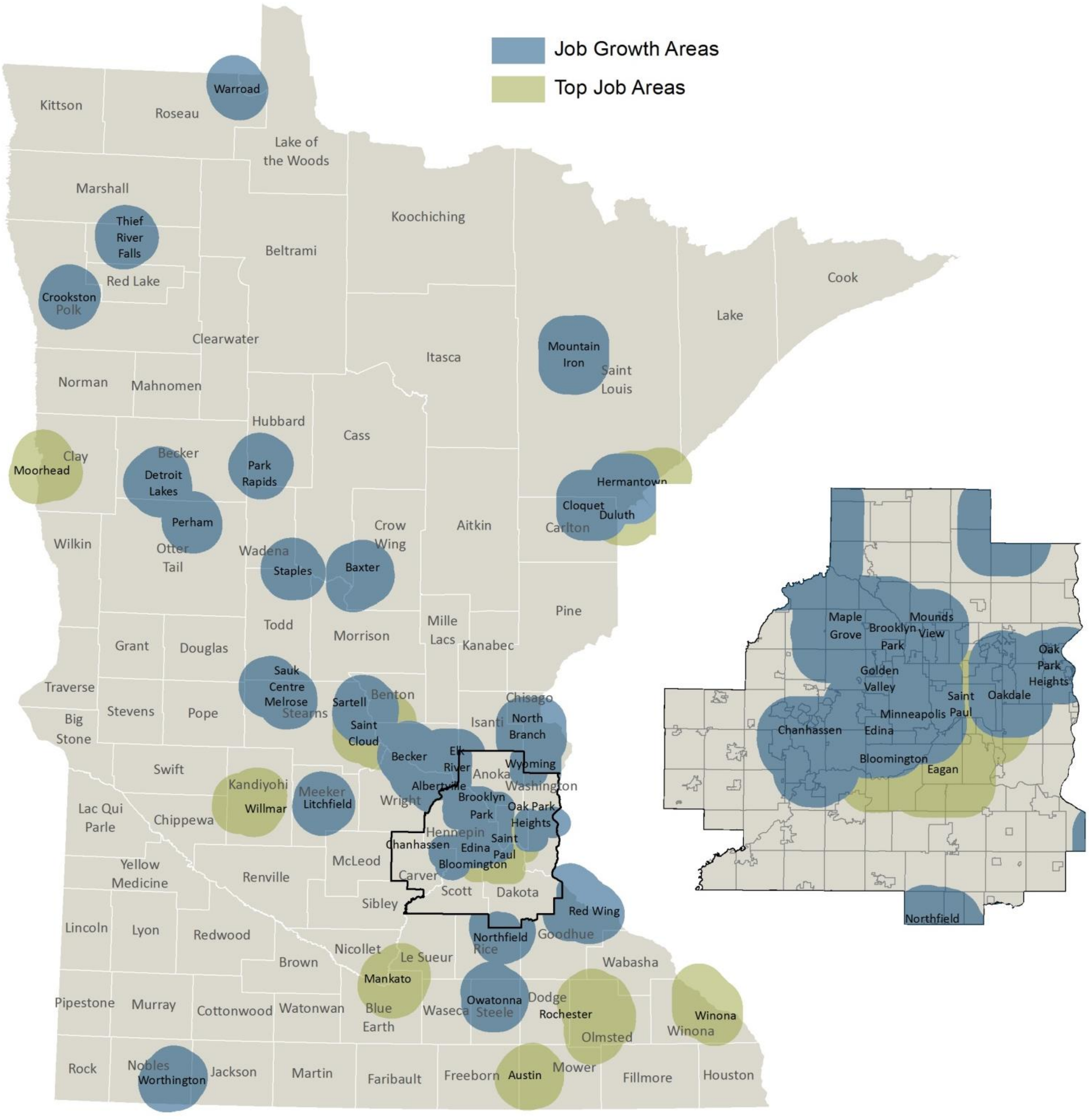
Table 2 - Greater Minnesota Workforce Housing Communities

Top Communities in Total Jobs 2012
Austin, Mower
Duluth, Saint Louis
Mankato, largely Blue Earth
Moorhead, Clay
Owatonna, Steele
Red Wing, Goodhue
Rochester, Olmsted
Saint Cloud, largely Stearns
Willmar, Kandiyohi
Winona, Winona

Communities with Job Growth 2007-2012
Albertville, Wright
Baxter, Crow Wing
Becker, Sherburne
Cloquet, Carlton
Crookston, Polk
Detroit Lakes, Becker
Elk River, Sherburne
Hermantown, Saint Louis
Litchfield, Meeker
Melrose, Stearns
Monticello, Wright
Mountain Iron, Saint Louis
North Branch, Chisago
Northfield, largely Rice
Owatonna, Steele
Park Rapids, Hubbard
Perham, Otter Tail
Red Wing, Goodhue
Sartell, largely Stearns
Sauk Centre, Stearns
Staples, largely Todd
Thief River Falls, Pennington
Warroad, Roseau
Worthington, Nobles
Wyoming, Chisago

[2] When conducting time series analysis using the DEED Quarterly Census of Employment and Wages data, there is potential for reporting changes by employers from neighboring communities between the two years. This may result in a job growth figure that may not be the result of new jobs. This list includes all cities with positive job change between 2007 and 2012 regardless of these potential reporting shifts.

Workforce Areas



Job growth areas are within five miles of the top 10 job growth communities in the Twin Cities Metro, and within ten miles of all job growth communities (for communities with at least 2,000 jobs) in Greater Minnesota.

Top jobs areas are within 5 miles of top 5 communities for total jobs in the Twin Cities Metro, and within 10 miles of the top 10 communities for total jobs in Greater Minnesota.

Minnesota Housing Finance Agency

Source: MN Department of Employment and Economic Development Quarterly Census of Employment and Wages, Date: 12/30/2013

Preservation Geographic Priority Areas

In the preservation priority, there are three geographic-based areas defined in the self-scoring worksheet, regional definition, jobs and household growth communities, and communities with an affordable housing gap. This methodology defines each. Applicants will find interactive maps to identify whether a property falls within these areas on Minnesota Housing's website – www.mnhousing.gov > Policy & Research > Community Profiles.

1. Regional Definitions

For the purposes of obtaining points for number of units preserved, the state is broke into two geographic regions, Metro/MSA counties, and Greater Minnesota rural counties. Table 1 below displays a list of counties in the Metro and Greater Minnesota MSAs.

Table 1 – Metro and MSA Counties

Region	**Minnesota Counties**
Duluth MSA	Carlton, Saint Louis
Fargo MSA	Clay
Grand Forks MSA	Polk
La Crosse MSA	Houston
Mankato MSA	Blue Earth, Nicollet
Rochester MSA	Dodge, Olmsted
Saint Cloud MSA	Benton, Stearns
Twin Cities 7 County Metro	Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington
Twin Cities MSA (outside of 7 County Metro)	Chisago, Isanti, Sherburne, Wright

2. Job and Household Growth Communities Methodology

Areas can be defined as a growth community in two ways, through job or household growth. Job growth areas are determined by a city or township's job growth between 2007 and 2012, based on data from the Minnesota Department of Employment and Economic Development's Quarterly Census of Employment and Wages[1]. Household growth areas are determined by a census tract or city's growth in total households between 2000 and 2012, based on data from the US Census's Decennial Census and American Community Survey.

2.1 Job Growth

The methodology for determining areas with job growth is consistent with the methodology used in the "workforce housing" priority. However, the job growth area for preservation and the workforce area differ with the workforce housing priority including areas with a large number of jobs, not just job growth.

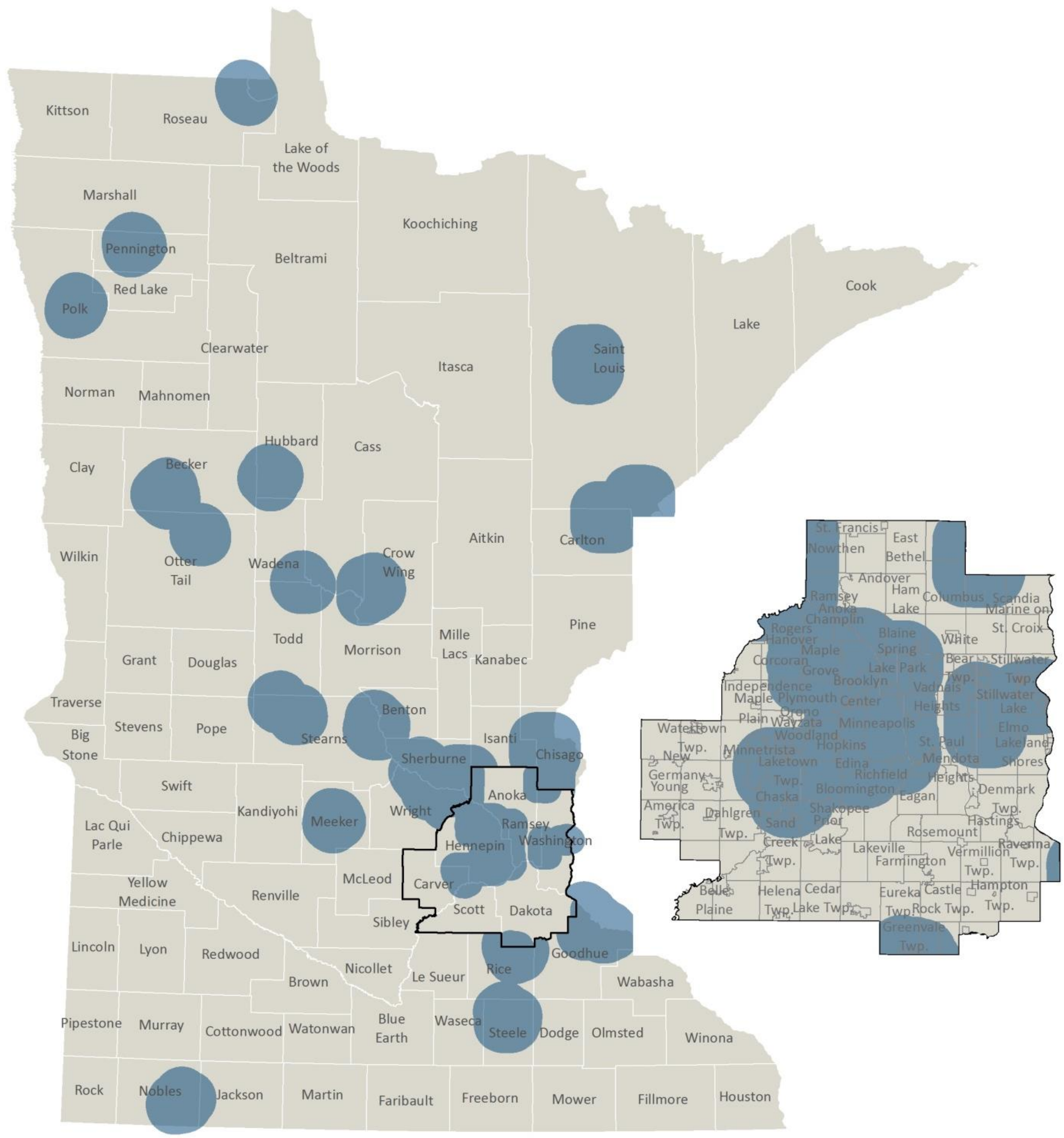
To be identified as a community with job growth, the top 10 communities in job growth[2] between 2007-2012 are selected for the Twin Cities seven county metro area, and all communities in Greater Minnesota with any job growth between 2007-2012 are selected. To meet the job growth definition, communities must meet or exceed 2,000 jobs in 2012. Areas within five miles of communities in the Twin Cities seven county metro area and within 10 miles of communities in Greater Minnesota are included for a modest commuteshed. Table 2 below and the map on page 2 list and show the communities that meet this definition. An interactive version of this map is available on the Minnesota Housing website: www.mnhousing.gov > Policy & Research > Community Profiles.

Table 2 – Job Growth Communities 2007-2012

Twin Cities Top 10 Job Growth	Greater Minnesota Job Growth	
Brooklyn Park, Hennepin	Albertville, Wright	North Branch, Chisago
Chanhassen, largely Carver	Baxter, Crow Wing	Northfield, largely Rice
Edina, Hennepin	Becker, Sherburne	Owatonna, Steele
Golden Valley, Hennepin	Cloquet, Carlton	Park Rapids, Hubbard
Hopkins, Hennepin	Crookston, Polk	Perham, Otter Tail
Maple Grove, Hennepin	Detroit Lakes, Becker	Red Wing, Goodhue
Minneapolis, Hennepin	Elk River, Sherburne	Sartell, largely Stearns
Mounds View, Ramsey	Hermantown, Saint Louis	Sauk Centre, Stearns
Oak Park Heights, Washington	Litchfield, Meeker	Staples, largely Todd
Oakdale, Washington	Melrose, Stearns	Thief River Falls, Pennington
	Monticello, Wright	Warroad, Roseau
	Mountain Iron, Saint Louis	Worthington, Nobles
		Wyoming, Chisago

[1] http://mn.gov/deed/data/data-tools/qcew.jsp
[2] Job growth evaluated by total increase of number of jobs between 2007 and 2012.

Map 1 - Job Growth Priority Areas



Job Growth Areas

Includes areas within five miles of the top 10 job growth communities in the Twin Cities Metro, and within ten miles of all job growth communities (for communities with at least 2,000 jobs) in Greater Minnesota.

0 20 40 Miles

Minnesota Housing Finance Agency

Source: MN Dept. of Employment and Economic Development Quarterly Census of Employment and Wages (2007 and 2012), Date: 2/4/2014

2.2 Household Growth

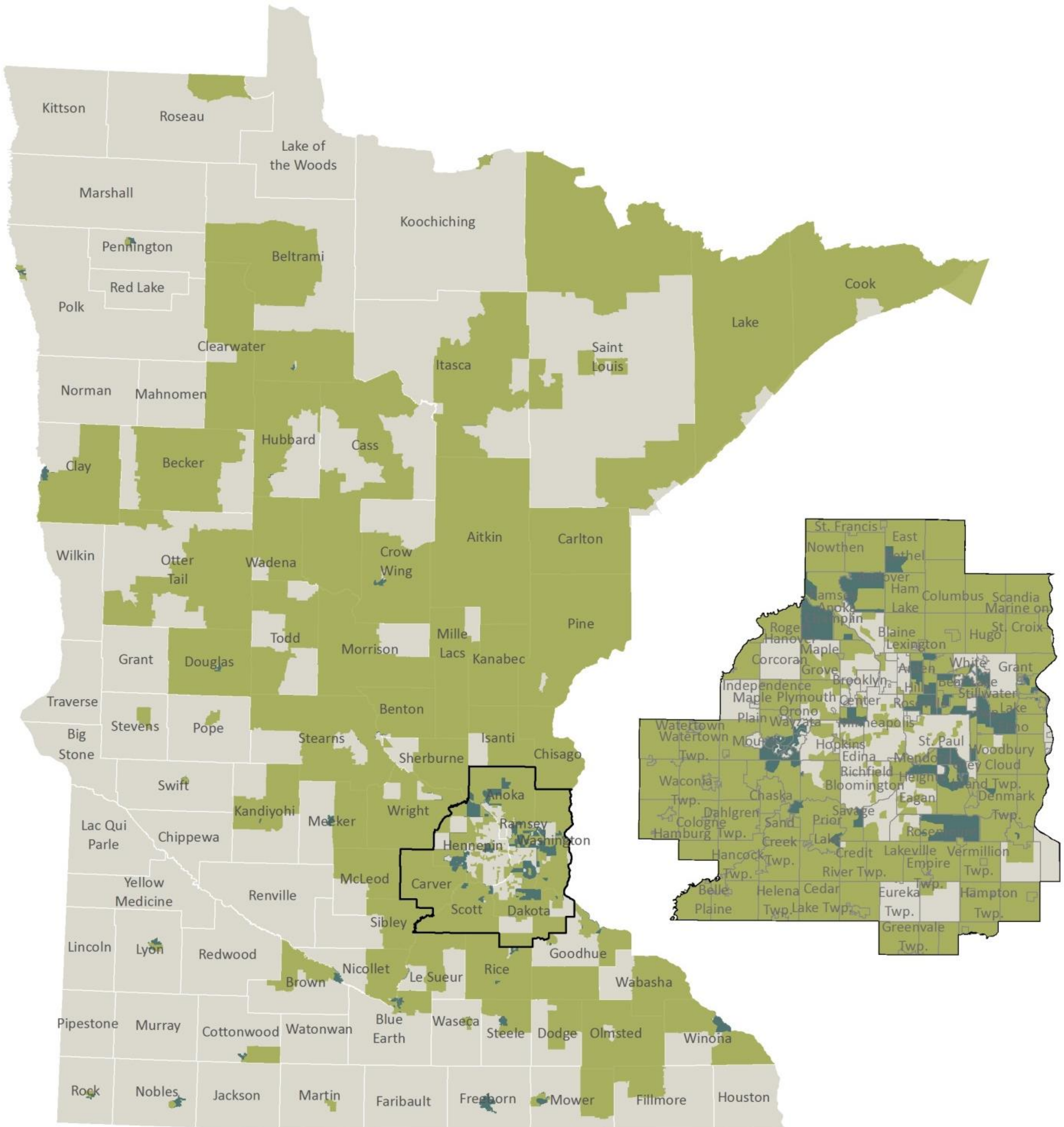
To be identified as a community with household growth, an area may be eligible in two ways. First, census tracts with total household growth of 100 and greater between 2000 and 2012 are eligible. An increase of 100 households represents the 60^{th} percentile of household change statewide. (60% of census tracts in the state had a change in households less than 100.)

Census tracts are variable in size of geography and typically contain 1,500 households. As such, tracts can range in size from small neighborhoods within an urban area to hundreds of square miles in rural areas, containing multiple small townships. Because of this variability a census tract doesn't always capture a "housing market". Smaller cities and townships can also capture a market. Larger cities (more than 15,000 households) often have multiple neighborhoods and housing markets. Data for cities and townships with fewer than 1,500 households is not always reliable from the American Community Survey. Furthermore, the boundaries of census tracts and cities do not coincide. Thus, a tract that partially goes into a growing city may not show growth itself if the population in the tract that is outside the city is declining

Thus, small to medium sized cities (between 1,500 and 15,000 households) are also evaluated for growth. These cities contain between 1-10 census tracts and could be considered a single housing market. Cities of this size that have at least 100 households are added to the census tracts with growth to form a more complete eligibility area.

The map on the next page shows the areas eligible under the household growth criterion. An interactive version of this map is available on the Minnesota Housing website: www.mnhousing.gov > Policy & Research > Community Profiles.

Map 2 - Household Growth Priority Areas



Tracts, HH Change >100	
Small and Medium Sized Cities HH Change >100	

Small and medium sized cities include those containing between 1,500 and 15,000 households, and are visible on the map only where a tract does not achieve the growth threshold of 100 households.

0 20 40 Miles

Minnesota Housing Finance Agency

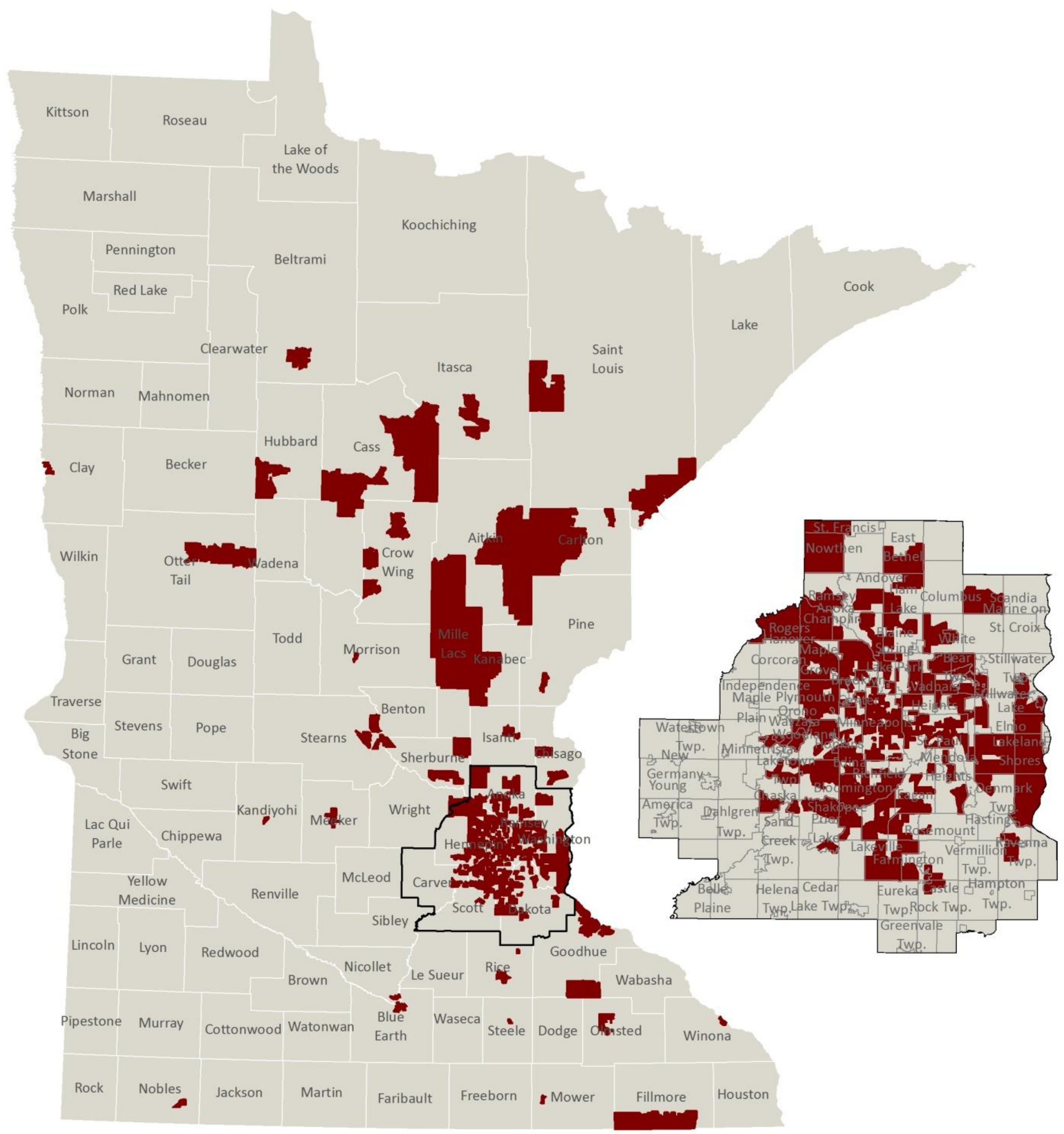
Source: Minnesota Housing analysis of 2000 Census and American Community Survey 2008-2012 data, Date: 2/4/2014

3. Communities with an Affordable Housing Gap Methodology

3.1. Supply and Demand Gap of Affordable Rental Housing

To be identified as a community with a gap in affordable housing, census tracts need to have a gap of affordable housing units as calculated by the difference between the number of renters in a tract that have incomes at or below 50% of Area Median Income (AMI) and the number of rental units that are affordable to households at or below 50% AMI. Using HUD's Comprehensive Housing Affordability Strategy (CHAS) data from 2006-2010, a gap of 5 units represents the 60th percentile census tracts (60% of tracts have a smaller gap). Map 3 on the following page shows the Statewide and Metro areas with large gaps. Areas in maroon depict tracts that achieve this threshold.

Map 3 - Affordable Unit Gap



Affordable Unit Gap 5 Units or More

Difference between the number of renter households with annual incomes <=50% of area median income and the number of rental units affordable to households with annual incomes <=50% AMI.

0 20 40 Miles

Minnesota Housing Finance Agency

Source: Minnesota Housing analysis of HUD's 2006-2010 Comprehensive Affordability Housing Strategy (CHAS) data, Date: 2/4/2014

High Need Foreclosure Methodology

Foreclosed priority areas identify zip codes with the greatest foreclosure need. This document describes the high-need zip codes as well as an alternative method for quantifying foreclosure need in a community. An interactive version of maps detailing these locations are available on Minnesota Housing's website: www.mnhousing.gov > Policy & Research > Community Profiles

High Need Zip Codes Defined

Based on zip code level data purchased from CoreLogic, Minnesota Housing identified 123 residential zip codes (out of 883 statewide) with the greatest foreclosure need. Need is based on the following factors in each zip code, and the factors received the following weights to form a composite foreclosure rate for September 2013:

- REO rate (50%),
- Foreclosure rate (30%), and
- Delinquency rate (20%)

Under this definition, high need zip codes are those with a composite rate that is at least 1 ½ times greater than the state rate.

See Map 1 for the high-need zip codes. Table 1 lists the zip codes by county. If a development is in one of the listed zip codes, it is eligible for this priority.

Alternative to High Need Zip Codes

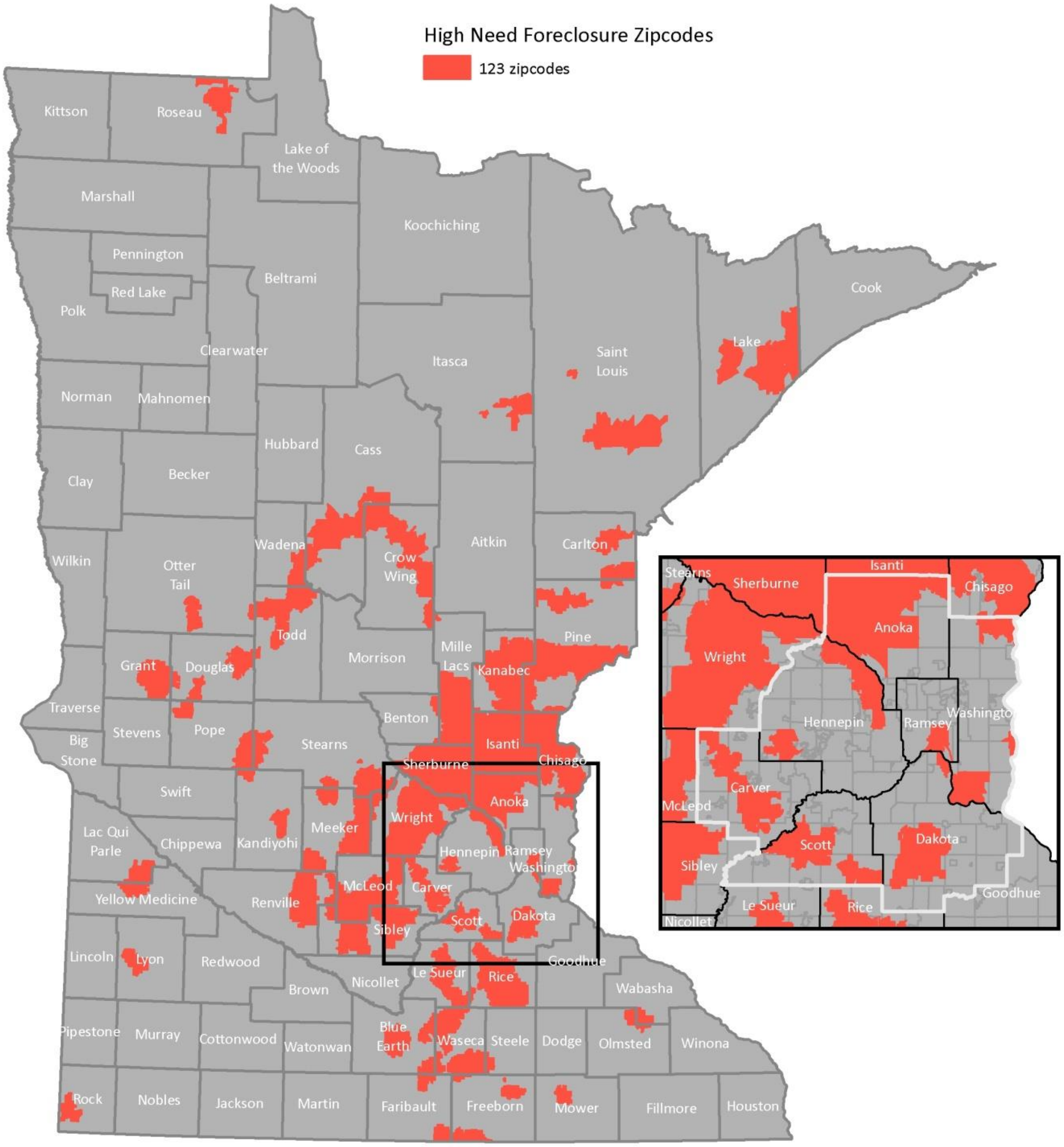
Because zip codes can contain up to 20,000 households, some high need areas are not identified by the zip code analysis. One section of a zip code may have a very high foreclosure rate, while the remaining parts of the same zip code may have a low rate, giving the zip code a lower foreclosure rate overall. To account for this shortcoming in the analysis, an applicant working outside one of the high need zip codes can still receive credit for the foreclosure priority if the development is in a community or neighborhood with at least a 7.5% sheriff-sales rate. The rate is calculated by identifying the community or neighborhood around the development and computing the number of residential sheriff sales that occurred during 2011, 2012, and 2013 in the community or neighborhood and then dividing the three year total by the number of residential parcels in the community or neighborhood. To be eligible for the foreclosure priority, the community or neighborhood boundaries must be acceptable to Minnesota Housing and contain at least 200 residential parcels. Isolated small pockets of foreclosures are not eligible for this priority.

Each applicant seeking credit for a development in a high-need foreclosure area under the alternative definition (outside an identified high-need zip codes) must provide the following information:

1. A map showing the boundaries of the community or neighborhood and the development's location within it;
2. The number of sheriff sales that occurred in the identified community or neighborhood during 2011, 2012, and 2013 (with a separate figure for each year); and
3. The number of residential parcels in the identified community or neighborhood (not the number of households).

Finally, new subdivisions that are partially completed are not eligible to be counted in the sheriff sales calculation. A partially-completed, new subdivision is defined as a development where less than 90% of the lots have been fully developed with a residential structure and are ready to be occupied or less than 90% of the fully-developed residential structures have been occupied at some point.

Map 1 - High Need Foreclosure Zip Codes



Source: Minnesota Housing analysis of CoreLogic data for September 2013.

Notes: The index is based on each zip code's composite score which is based on the rate of properties that are Real Estate Owned (REO) (50%), in foreclosure (30%), and in 90+ day delinquency (20%). Each zip code's rate is divided by the state rate to compute the composite index score. An index score of 150 means the zip code's rate is one and a half times the state rate, while an index score of 50 would mean the zip code's rate is half the state rate.

Table 1 - Listing of High Need Zip Codes

Primary County	Zip Code
Anoka	55005
Anoka	55011
Anoka	55070
Anoka	55303
Anoka	55304
Anoka	55448
Blue Earth	56037
Blue Earth	56080
Carlton	55718
Carlton	55749
Carver	55322
Carver	55360
Cass	56474
Chisago	55012
Chisago	55032
Chisago	55045
Chisago	55056
Chisago	55069
Chisago	55074
Chisago	55079
Crow Wing	56441
Crow Wing	56442
Crow Wing	56444
Crow Wing	56450
Dakota	55024
Dakota	55075
Douglas	56319
Douglas	56327
Douglas	56355
Faribault	56051
Faribault	56068

Primary County	Zip Code
Freeborn	56029
Freeborn	56035
Freeborn	56045
Grant	56311
Grant	56339
Hennepin	55316
Hennepin	55327
Hennepin	55364
Hennepin	55411
Hennepin	55412
Hennepin	55429
Hennepin	55430
Hennepin	55443
Hennepin	55444
Hennepin	55445
Isanti	55006
Isanti	55008
Isanti	55017
Isanti	55040
Isanti	55080
Itasca	55722
Itasca	55764
Itasca	55775
Kanabec	55007
Kanabec	55051
Kandiyohi	56251
Lac Qui Parle	56218
Lake	55603
Le Sueur	56057
Le Sueur	56096

Primary County	Zip Code
Lyon	56157
McLeod	55312
McLeod	55336
McLeod	55354
McLeod	55385
McLeod	55395
Meeker	55324
Meeker	55325
Meeker	55329
Meeker	56228
Mille Lacs	55371
Mille Lacs	56330
Mille Lacs	56353
Mower	55918
Otter Tail	56524
Pine	55030
Pine	55037
Pine	55795
Ramsey	55101
Ramsey	55106
Ramsey	55107
Ramsey*	55130
Renville	55342
Rice	55019
Rice	55021
Rice	55046
Rock	56116
Roseau	56756
Saint Louis	55713
Saint Louis	55724
Scott	55020

Primary County	Zip Code
Scott	55054
Scott	55352
Sherburne	55308
Sherburne	55309
Sherburne	55319
Sherburne	55330
Sherburne	55398
Sibley	55307
Sibley	55338
Sibley	55396
Stearns	55353
Stearns	56316
Stearns	56369
Todd	56437
Todd	56440
Todd	56479
Wabasha	55932
Waseca	56048
Waseca	56072
Washington	55016
Washington	55043
Washington	55071
Washington	55073
Wright	55301
Wright	55313
Wright	55349
Wright	55358
Wright	55362
Wright	55363
Wright	55382
Wright	55390

***55130.** This zip code on Saint Paul's East Side is relatively new. While local data support that this zip code has significant foreclosures, the analysis did not pick up this area as a hot spot for foreclosure and thus was altered to be included as a high need zip code.

Location Efficiency Methodology

Location efficiency is defined by Minnesota Housing through a combination of access to transit and walkability criteria in the Twin Cities Metro and Greater Minnesota.

Twin Cities Metropolitan Area

In the Twin Cities Metro, applicants can receive up to 9 points for location efficiency based on three criteria. First, applicants must achieve one of three levels of access to transit. Second, up to two additional points are available for walkability as measured by walk score (www.walkscore.com). Finally, up to two additional points are available for transit oriented design.

• **Access to Transit (one of the following):** *Applicants can map project locations or determine access to transit points at the Minnesota Housing Community Profiles tool: www.mnhousing.gov > Research & Publications > Community Profiles*		
Proximity to LRT/BRT/Commuter Rail Station	Locations within ½ mile of a planned[i] or existing LRT, BRT, or Commuter Rail Station. As of publication, lines include: Hiawatha, Central Corridor, and Southwest LRT, Northstar Commuter Rail, and stations of the Cedar Ave and I-35W BRT lines.	Points 5
Proximity to Hi-Frequency Transit Network	Locations located within ¼ mile of a fixed route stop on Metro Transit's Hi-Frequency Network.	4
Access to Public Transportation	Locations within one quarter mile of a high service[ii] public transportation fixed route stop or within one half mile of an express route bus stop or park and ride lot.	2
• **Walkability (one of the following):**		
Walk score of 70+	Walk score is based on results from the following tool: www.walkscore.com. Applicant must submit a dated print out of locations' walk score from the walk score tool.[1]	2
Walk score of 50-69		1
• **Transit Oriented Development (1 point if 1 item below is achieved, 2 points if 2 or more items are achieved):** *To be eligible for any of these points, the location must be within ¼ mile of a planned or existing LRT, BRT, or Commuter Rail Station.**		
Parking	Parking for residential units or visitors is not more than the smallest allowable parking minimum under local zoning requirements. If no residential parking or visitor parking is required under local zoning, no more than 0.2 visitor parking spaces per residential unit are provided (i.e. 10 stalls in a 50 unit and 20 stalls in a 100 unit building).	

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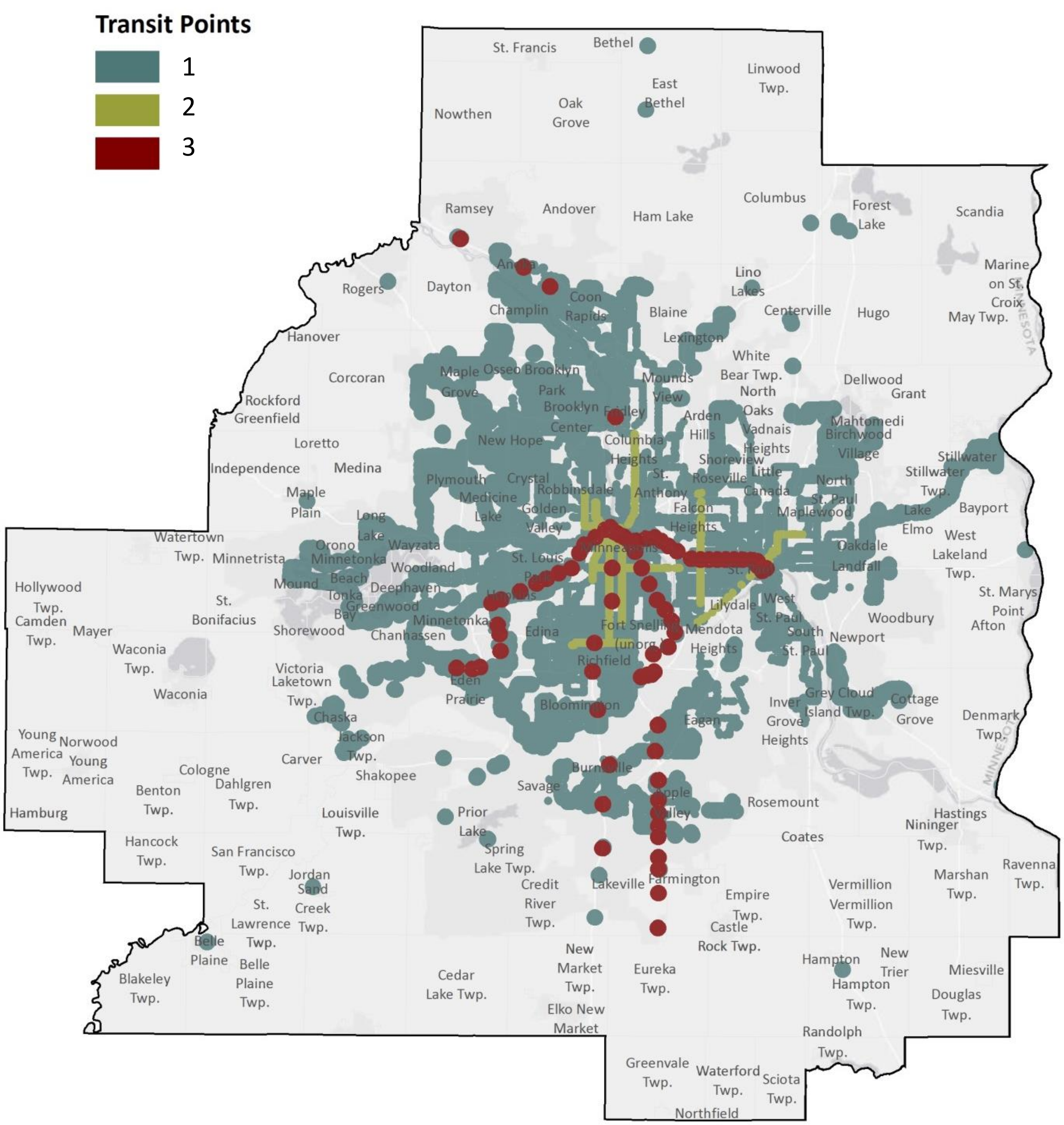
[1] If address cannot be found in the Walk Score tool, use closest intersection within ¼ mile of the proposed location. If a nearby intersection cannot be resolved in the tool, contact Minnesota Housing (Jessica.deegan@state.mn.us) for further assistance),

Building Orientation and Connections	Currently existing walkable or bikeable connections to station area via sidewalk or trail or funding secured to create such connections, and at least one accessible building entrance oriented toward such connections, and parking is not situated between building and station area.	
Density	Site density at the maximum allowable density under the local comprehensive plan.	
Alternative Means	Car sharing (Where one or more passenger automobiles are provided for common use by residents), bike storage, shared parking arrangements with adjacent property owners, etc. which results in a reduction in the local minimum parking requirement, and parking for residential units is not more than the local minimum parking requirement, or if no residential parking is required under local zoning, 10 or fewer parking stalls are provided.	

* Within 6 months of the date of selection (Minnesota Housing Board selection date) the applicant must provide Minnesota Housing with documentation of local authorization or approval, where such approval is necessary, for points taken under transit oriented development. The documentation must state the terms and conditions and be executed or approved at a minimum by the contributor. Lack of acceptable documentation will result in the reevaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

The following map shows areas with access to transit. An interactive version of this map is accessible at:
www.mnhousing.gov > Policy & Research > Community Profiles

Figure 1: Transit Access Point Levels in the Twin Cities Metro



Map Source: Minnesota Housing analysis of MetroTransit 2014 data on Hi-Frequency Network, Planned and Existing Transit Lines, bus service, and park and rides.

Greater Minnesota

For areas in Greater Minnesota with access to fixed route transit, applicants can receive up to 9 points with a combination of access to transit and walkability in areas with fixed route transit. For areas without fixed route transit, applicants can receive points with a combination of proximity to jobs, access to dial-a-ride or demand-response transit, and walkability. These options are described below.

A. For areas with fixed route transit service:

• **Access to Transit (one of the following):**		
Within ¼ mile of fixed route transit stop		Points 7
Between ¼ mile and ½ mile of fixed route transit stop		4
Less than 1 ½ mile from park and ride		4
• **Walkability (one of the following):**		
Walk score of 70+	Walk score is based on results from the following tool: www.walkscore.com. Applicant must submit a dated print out of locations' walk score from the walk score tool.[2]	2
Walk score of 50-69		1

B. For areas without fixed route transit service:

• **Access to Transit (one of the following):**	
Close to jobs and dial-a-ride and walk score of 70+	Points 4
Close to jobs and dial-a-ride and walk score of 50-69	3
Close to jobs and (dial-a-ride or walk score of 70+)	2
Close to jobs and (dial-a-ride or walk score of 50-69)	1

- Jobs: property is located within a census tract that is close to low and moderate wage jobs[iii]
- *Dial-a-Ride:* The proposed housing has access to regular demand-response/dial-a-ride transportation service Monday through Friday during standard workday hours (6:30 AM to 7:00 PM). Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments. Applicants can find service providers by county or city at the MN Department of Transportation Transit website: http://www.dot.state.mn.us/transit/riders/index.html.
- Walk score is based on results from the following tool: www.walkscore.com. Applicant must submit a

[2] If address cannot be found in the Walk Score tool, use closest intersection within ¼ mile of the proposed location. If a nearby intersection cannot be resolved in the tool, contact Minnesota Housing (Jessica.deegan@state.mn.us) for further assistance),

dated print out of locations' walk score from the walk score tool.

The maps and tables on the following pages provide detail to support the Greater Minnesota transportation priority

- The maps on page 6 display fixed route stops and ¼ and ½ mile buffers in Duluth, Rochester, Moorhead, , and St. Cloud.
- The map on page 7 displays the census tracts that are close to low and moderate wage jobs for 2011.
- Table 1 beginning on page 8 lists these census tracts. Interactive maps showing access to low and moderate wage jobs are provided on Minnesota Housing's website: www.mnhousing.gov > Policy & Research > Community Profiles

To receive points under access to fixed route transit, applicants in Greater Minnesota must submit a map identifying the location of the project. For communities that Minnesota Housing does not have data for, applicants must submit a map with exact distances to the eligible public transportation station/stop and include a copy of the route, span, and frequency of services. Applicants can find service providers by county or city at the MN Department of Transportation Transit website, http://www.dot.state.mn.us/transit/riders/index.html

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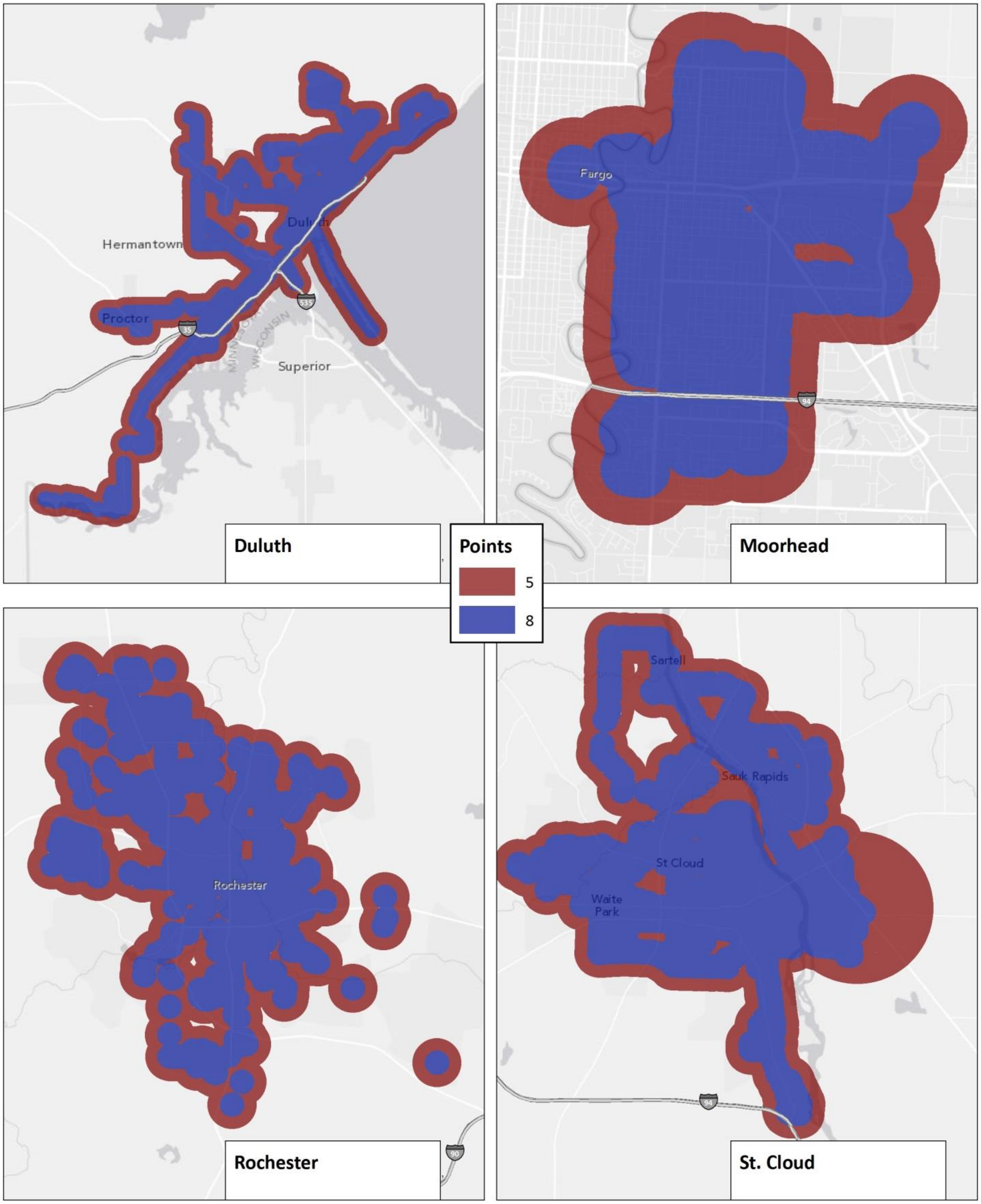
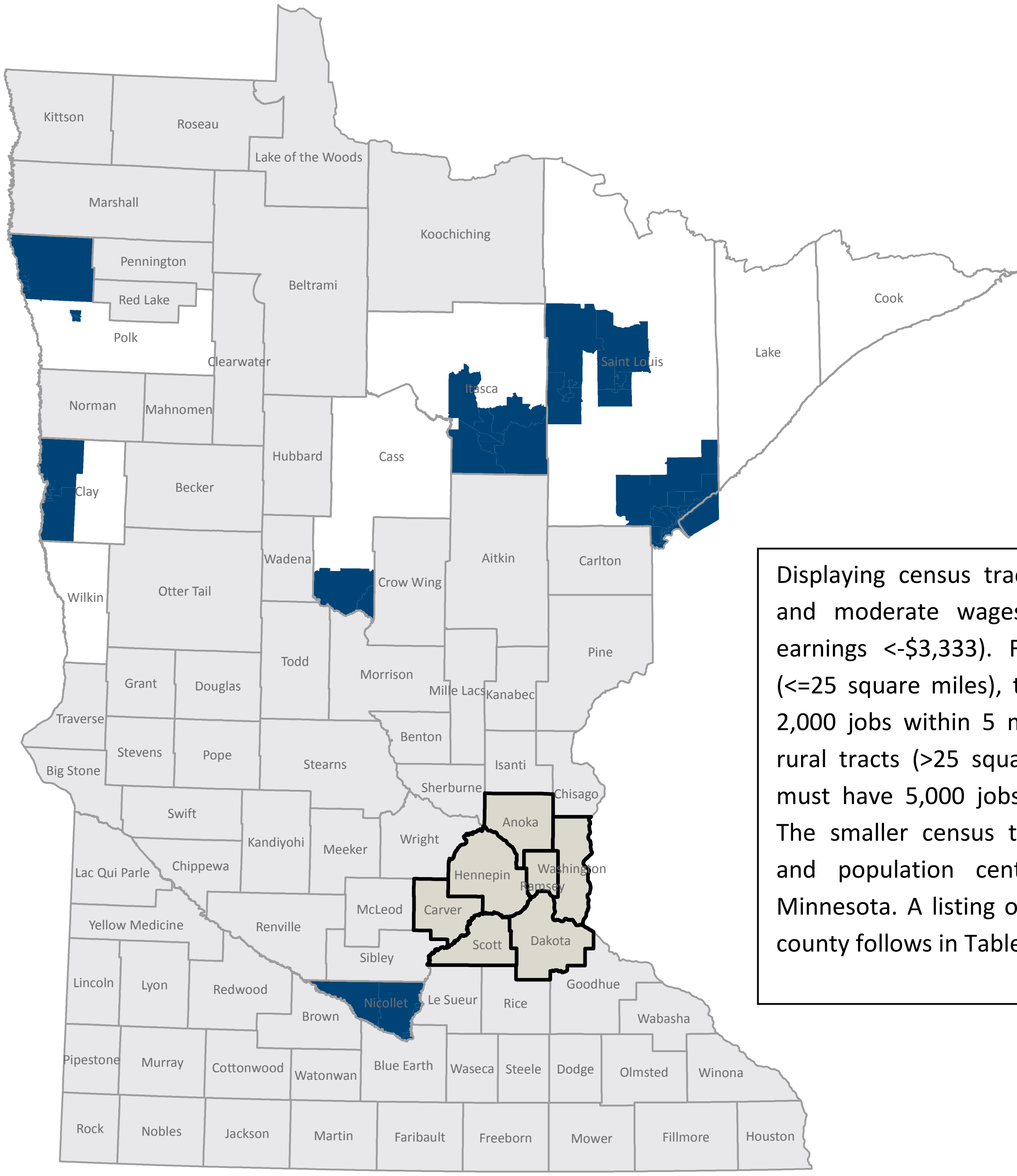
Figure 2: Transit Access Point Levels in Greater Minnesota



Source: January 2014 data from Duluth Transit Authority, Rochester Public Works, Saint Cloud Metropolitan Transit Commission, and MATBUS (Moorhead).

Figure 3: Jobs in Greater Minnesota



Displaying census tracts close to low and moderate wages jobs (monthly earnings <-$3,333). For urban tracts (<=25 square miles), tracts must have 2,000 jobs within 5 miles. For large, rural tracts (>25 square miles), tracts must have 5,000 jobs within 5 miles. The smaller census tracts reflect job and population centers in Greater Minnesota. A listing of these tracts by county follows in Table 1.

■ Tracts close to low and moderate jobs - 2011

Map Source: Minnesota Housing analysis US Census Local Employment Dynamics program data, 2011.

Table 1: Census tracts close to low and moderate wage jobs in Greater Minnesota by county

Becker
4503
4504
4505
4506
4507
4508
Beltrami
4501
4502
4503
4506
4507.01
4507.02
Benton
202.02
202.05
202.06
203
211.01
211.02
212
Blue Earth
1701
1702
1703
1704
1705
1706
1707
1708
1709
1711.01
1712.02
1713
1716
Brown
9601.01
9601.02
9602
9603
9604
9605
9607
Carlton
701
702
703
704
705
9400
Cass
9608.01
9608.02
Chippewa
9503
9506
Chisago
1101
1103.01
1103.02
1104.01
1104.02
1105.01
1105.02
1106
Clay
201
202.02
203
204
205
206
301.02
301.03
301.04
301.06
301.07
Crow Wing
9505.02
9508
9509
9510
9511
9512
9513.01
9513.02
9514
Dodge
9505
Douglas
4505
4506
4507.01
4507.02
4508
4509
4510
Freeborn
1801
1802
1803
1804
1805
1806
1807
1808
1809
1810
Goodhue
801.01
801.02
802
803
804
Hubbard
701
706
Isanti
1301
1302
1303.01
1303.02
1304
1305.01
1305.02
1306
Itasca
4803
4806
4807
4808.01
4808.02
4809
4810
Jackson
4801
Kanabec
4803
Kandiyohi
7709
7801
7804
7805
7806
7807
7808
7810
7811
7812
Koochiching
7901
7902
Lac Qui Parle
1803
Le Sueur
9501
9502
9506
Lyon
3602
3603
3604
3605
Marshall
801
802
Martin
7902
7905
7906
McLeod
9502
9503
9504
9507
Meeker
5603
5604
Mille Lacs
1707
Morrison
7802
7803
7806
7807
7808
Mower
1
2
3
4.1
6
8
9
10
Nicollet
4801
4802
4803

4804
4805.01
4805.02
4806

Nobles

1051
1053
1054
1055
1056

Olmsted

1
2
3
4
5
6
9.01
9.02
9.03
10
11
12.01
12.02
12.03
13.01
13.02
14.01
14.02
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Otter Tail

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Pope

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Redwood

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Renville

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Roseau

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Saint Louis

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Winona

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6705	**Wright**	1003	1008.02	9701
6706	1001	1007.01	1009	
6707	1002.02	1007.02	1010	
6708	1002.03	1007.03	1011	
6709	1002.04	1008.01	**Yellow Medicine**	

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[i] Includes planned stations on future transitways that are in advanced design or under construction. To be considered in advanced design, transitways need to meet the following criteria: issuance of a draft EIS, station area planning underway, and adoption by the Metropolitan Council Transportation Policy Plan. Transitways entering into advanced design after publication will be eligible, but data may not be available using Minnesota Housing scoring tools.

[ii] High service fixed route stop defined as those serviced during the time period 6 AM through 7 PM and with service approximately every half hour during that time.

[iii] For urban tracts (<=25 square miles), tracts must have 2,000 jobs within 5 miles. For large, rural tracts (>25 square miles), tracts must have 5,000 jobs within 5 miles. Smaller census tracts reflect job and population centers. Low and moderate wage jobs are those with a monthly earning less than or equal to $3,333, using LED data from the US Census (2010). Jobs that are located within 5 miles of a census tract boundary are included in the calculation.

COST CONTAINMENT METHODOLOGY: 2016 QAP

BACKGROUND

Cost containment points are awarded to the 50% of proposals with the lowest total development costs (TDC) per unit in each of the following four groups:

1. New Construction – Metro
2. New Construction – Greater MN
3. Rehabilitation – Metro
4. Rehabilitation – Greater MN

To address the issue of varying costs among developments for singles, families, and large families, the calculation of TDC per unit includes adjustment factors to bring these costs into equivalents terms. The adjustments reflect historical differences. For example, new construction costs for family/mixed developments are typically 17% higher than the costs for developments for singles. Thus, to make the costs for singles equivalent to those for families/mixed, TDCs per unit for singles are increased by 17% when making cost comparisons.

This cost containment criterion only applies to the selections for competitive 9% credits. It does not apply to 4% credits with tax-exempt bonds.

The purpose of the criterion is to give developers an incentive to "sharpen their pencils" and eliminate unnecessary costs and/or find innovative ways to minimize costs. Minnesota Housing does not want developers to compromise quality, durability, energy-efficiency, location desirability, and ability to house lower-income and vulnerable tenants. To ensure that these priorities are not compromised, all selected developments must meet Minnesota Housing's architectural and green standards. In addition, the Agency has intentionally set the points awarded under the cost containment criterion (4 points) to be less than the points awarded under other criterion, including economic integration, location efficiency, workforce housing, supportive housing for long-term homeless, and others.

PROCESS FOR AWARDING POINTS

To carry out the competition, the following process will be followed for all proposals/applications seeking competitive 9% credits:

- Group all the 9% tax credit proposals into the 4 development type/location categories:
  - New Construction – Metro
  - New Construction – Greater Minnesota
  - Rehabilitation – Metro
  - Rehabilitation – Greater Minnesota

- Adjust the costs for developments for singles and large families to make them equivalent to the costs for family/mixed developments. See the second column of Table 1 for the adjustments. For example, the TDC per unit for large-family new-construction projects is multiplied by 0.96 to make it equivalent to the costs for a family/mixed development. Specifically, if the TDC per unit is $233,000 for a large-family development, it is multiplied by 0.96 to compute the equivalent cost of $223,680.

- After adjusting the costs for single and large-family developments, order all the proposals by TDC per unit within each of the four groups from lowest to highest.

- Within each group, award 4 points to the 50% of proposals with the lowest TDCs per unit.

  - If the number of proposals in a group is even, the number of proposals eligible to get points =

    (Number of proposals in group)/2

  - If the number of proposals in a group is odd, the number of proposals eligible to get points =

    (Number of proposals in group)/2
    Rounded down to nearest whole number

    However,

    - If the next proposal in the rank order (of those not already receiving points) meets that group's threshold (see the third column of Table 1), that proposal is also eligible to get points, or

    - If that proposal's TDC per unit is higher than the threshold, it does not get points.

Only proposals that claim cost containment points on the self-scoring worksheet and are in the lowest half of the costs for their group will actually receive the cost containment points.

The cost thresholds in the third column reflect the historical mid-point costs for family/mixed developments in each group.

Table 1: 2016 QAP - Adjustment Factors and Thresholds to Determine if Middle Proposal Gets Points if Odd Number in Group

	Cost Adjustment to Families/ Mixed	Threshold Test if Odd Number of Proposals
New Construction Metro for Singles	1.17	$238,000
New Construction Metro for Families/Mixed	1.00	
New Construction Metro for Large Families	0.96	
New Construction Greater MN for Singles	1.17	$189,000
New Construction Greater MN for Families/Mixed	1.00	
New Construction Greater MN for Large Families	0.96	
Rehabilitation Metro for Singles	1.30	$190,000
Rehabilitation Metro for Families/Mixed	1.00	
Rehabilitation Metro for Large Families	0.85	
Rehabilitation Greater MN for Singles	1.30	$151,000
Rehabilitation Greater MN for Families/Mixed	1.00	
Rehabilitation Greater MN for Large Families	0.85	

- “Metro” applies to the seven-county Twin Cities metro area, while “Greater MN” applies to the other 80 counties.
- "Singles" applies to developments where the share of efficiencies and 1 bedroom units is 75% or greater.
- "Large Families" applies to developments where the share of units with 3 or more bedrooms is 50% or greater.
- "Families/Mixed" applies to all other developments.
- “New Construction” includes regular new construction, adaptive reuse/conversion to residential housing, and projects that mix new construction and rehabilitation if the new construction gross square footage is greater than the rehabilitation square footage.

IMPLEMENTATION DETAILS

To recognize the unique costs and situation of projects on Tribal lands, these projects will receive a 10% adjustment to their costs. Their costs will be reduced by 10% when they compete for the cost-containment points.

A different process occurs for the second round of tax credit selections. For each of the four competition groups, the cost per unit of the proposal at the 50^{th} percentile in round 1 (using the identification process and adjustments outlined earlier) will determine the cut point or threshold for receiving points in round 2.

In the self-scoring worksheet, all proposals that believe they have contained their costs should select these points; however, during the final scoring by the Agency, staff will take away the points from those proposals not in the lower half of costs for each of the four categories. (To identify the 50% of proposals with the lowest costs in each category, the Agency will include the costs of all proposals/applications seeking 9% tax credits, not just those electing to participate in the competition for cost containment points by claiming the points in the self-scoring worksheet. However, only those electing to participate in the competition by claiming the points in the self-scoring worksheet will be eligible to receive the points if they are in the lower half of project costs.)

If a project receives points under this criterion, failure to keep project costs under the applicable cost threshold will be considered an unacceptable practice and result in negative 4 points being awarded in the applicant's next tax credit submission. The "applicable cost threshold" will be determined by the cost-containment selection process. Within each of the 4 development/location types, the cost per unit of the proposal at the 50^{th} percentile (using the identification process identified earlier) will represent the "applicable cost threshold" that projects receiving cost-containment points will need to meet (with appropriate adjustments for single, family/mixed, and large family developments). For example, if the 50^{th} percentile proposal for new construction in Greater Minnesota is a family/mixed development with a per unit cost of $175,000, all new construction developments in Greater Minnesota receiving the cost-containment points will need to have a final cost per unit at or below this threshold when the project is completed. In making the assessment, the final costs for new-construction single developments will be multiplied by 1.17 and compared with the $175,000 threshold. Likewise, the final costs for large family developments will be multiplied by 0.96. ~~If developers are concerned about their costs and keeping them within the "applicable cost threshold", they should not claim the cost-containment points in the self-scoring worksheet.~~

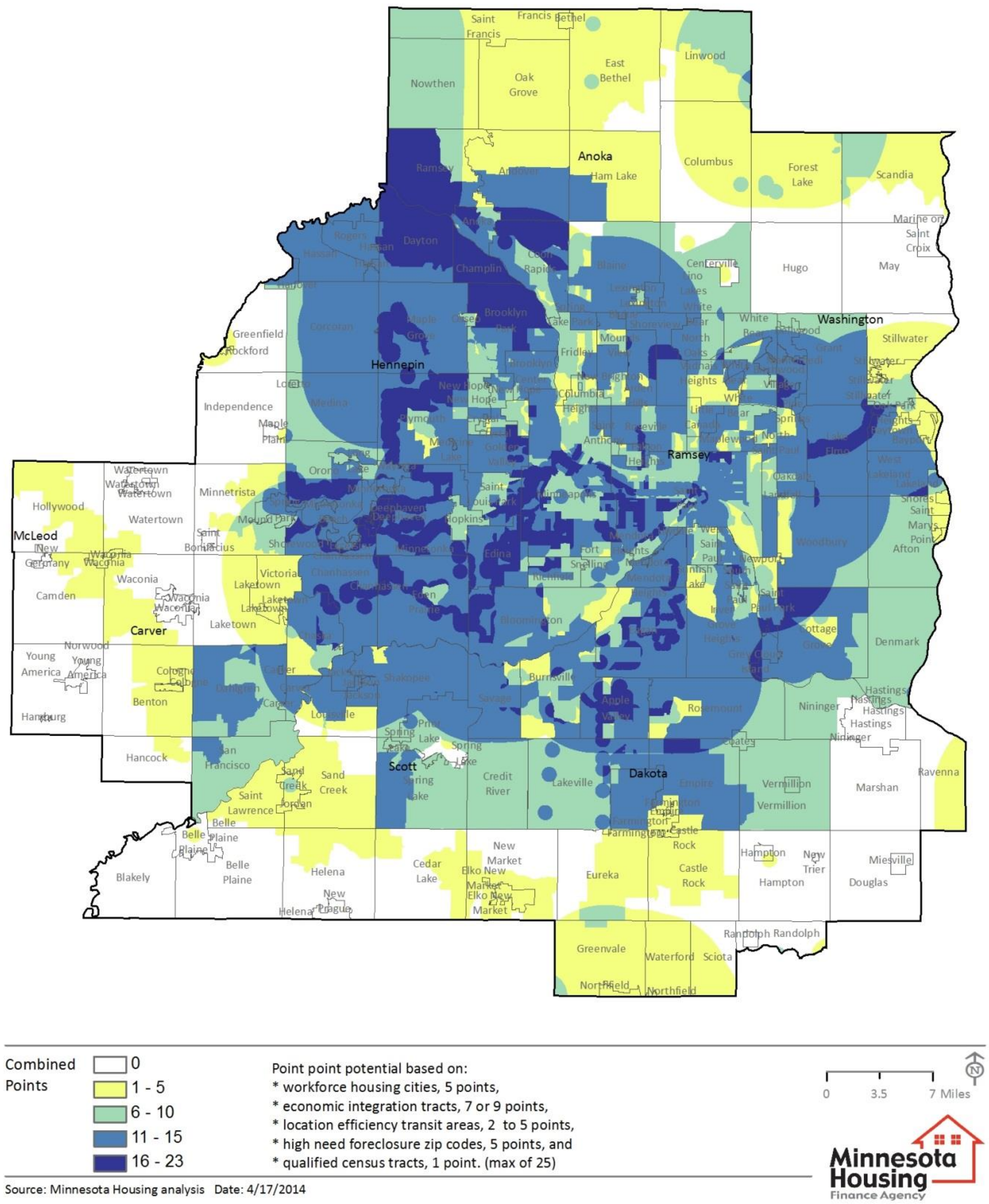
This cost containment competition does not apply to proposals/applications seeking 4% tax credits with tax exempt bonds. However, as discussed below, Minnesota Housing will assess the cost reasonableness of all tax credit proposals, including 4% credits, using the Agency's predictive cost model.

If developers are concerned about their costs and keeping them within the "applicable cost threshold", they should not claim the cost-containment points in the self-scoring worksheet.

PREDICTIVE COST MODEL AND COST REASONABLENESS

Besides awarding cost-containment points under this criterion, Minnesota Housing will also evaluate "cost-reasonableness" of all proposed tax credits developments (even those that do not receive points under this criterion) using the Agency's predictive cost model. The model is a regression analysis that predicts total development costs using data from developments that the Agency has financed in the past (adjusted for inflation) and industry construction costs from RSMeans. The model measures the individual effect that a set of explanatory variables (which includes building type, building characteristics, unit characteristics, type of work carried out, project size, project location, population served, financing, etc.) have on costs. During the process of evaluating projects for funding, Minnesota Housing compares the proposed total development costs for each project with its predicted costs from the model. The Agency combines the model's results with the professional assessment of the Agency's architects and underwriters to assess cost reasonableness overall. The purpose of the cost-reasonableness testing (on top of the cost-containment scoring) is to ensure that all developments financed by Minnesota Housing have reasonable costs, even 4% credits and the 50% that do not receive points under the cost-containment criterion.

Combined Geographic Priority Point Potential, 2016 QAP: Twin Cities



Source: Minnesota Housing analysis Date: 4/17/2014

Note: In the map under location efficiency – points are shown for access to transit and are not shown for Walk Score or TOD building design, each of which has a maximum of 2 points

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AGENDA ITEM: 9.A
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Post-Sale Report, Residential Housing Finance Bonds, 2014 Series A

CONTACT: Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

Bill Kapphahn, 651-215-5972
william.kapphahn@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:

The Agency sold $50,000,000 of Residential Housing Finance Bonds on February 11, 2014. Pursuant to the Debt Management Policy, the attached post-sale report is provided by the Agency's financial advisor, CSG Advisors. This is an information item and does not require approval.

FISCAL IMPACT:

None

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Post-Sale Report

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CSG | advisors

Via Email Delivery

M E M O R A N D U M

Date: **March 24, 2014**

To: **Minnesota Housing Finance Agency**

From: **Gene Slater, Eric Olson, Tim Rittenhouse**

Re: **Post-Sale Report**
$50,000,000 Residential Housing Finance Bonds (RHFB)
2014 Series A

KEY RESULTS FOR MINNESOTA HOUSING

Opportunity. Minnesota Housing transferred a significant amount of mortgage loans to the Residential Housing Finance Bond ("RHFB") resolution when it closed out the old Single-Family resolution in 2012. Because these loans, now approximately $58 million, are older loans in the "None" account of the RHFB indenture and are not pledged to any specific bond issue, they can be pledged to a new bond issue to help shorten the average lives of the new bonds and reduce bond interest costs.

Overall Purpose. Series A is being issued to accomplish the following major objectives:

1. Enable Minnesota Housing to balance the ways it funds new single-family production by being able to keep a significant amount of production on the balance sheet, earning net income for future years.

2. Permanently finance a portion of loans that were not included in last June's downsized 2013 Series C currently in Pool 2 and have an average interest rate of 3.8%.

3. Achieve full spread on this new issue by pledging the cash flow from $16 million of existing loan collateral in RHFB to enable the new bonds to be issued with shorter maturities and average life than would be possible for financing the $50 million loans on their own under rating agency requirements.

4. Minimize any use of Minnesota Housing's existing $8 million of zero participations, so they remain available to help achieve full spread on future issues.

Key Measurable Objective. Minnesota Housing's objective was to use the limited amount of additional collateral to:

1. Lower the bond yield on the new issue far below that on a traditional 30-year bond issue so that Minnesota Housing could earn the maximum allowable spread.

2. Maintain the zero participations to finance future production with tax-exempt bonds at full spread.

3. Obtain a present value return for Minnesota Housing as high or higher than selling the same new MBS in the secondary market, assuming a reasonable prepayment speed.

Accomplishments. The results were extremely successful.

- Bond yield on Series 2014 A: 2.5% versus bond yield of 3.5% on a tax-exempt pass-through issue or 4% on a traditionally structured tax-exempt issue.

- Full spread on the new mortgages without using any of Minnesota Housing's existing zero participations.

- Present value return of approximately 3.5% at 100% prepayment speed, 2% at 150% prepayment speed and 1.2% at 200% prepayment speed. (For planning purposes, we have assumed 150% prepayment speed).

- Because the loans in Pool 2 from last June are at interest rates significantly below today's market rates, a TBA sale would not have been practicable.

Relationship to Recent Issues. Minnesota Housing has generally issued new single-family bonds, including all of the pass-through bonds in 2012 and 2013, under its newer even more highly rated Homeownership Finance Revenue Bond indenture. However, in certain circumstances it is advantageous to take advantage of existing assets under the RHFB indenture. This occurs when:

(a) it is possible to refund old RHFB bonds to generate interest rate savings (as happened on 2012 A/B/C/D and likely again later this year) or

(b) when it is possible to blend the average lives of old loans in RHFB not pledged to an existing bond issue together with current or recent lending, as on 2014 A.

Can This Be Repeated? Going forward, Minnesota Housing has approximately $42 million of loans remaining in the "None" account that could potentially be pledged to specific new bond issues to shorten their average lives as well. However, the cash flow on these loans helps cover the 0% prepayment rating agency stress scenario. Using the loans to frontload the maturities on new bond issues reduces the cash flow available to provide this liquidity under the extreme stress test on the overall existing indenture.

This is potentially important because in FY 2011 RHFB showed temporary cash shortfalls under the most stressful of Moody's stress scenarios. Depositing the loans from the old Single-Family indenture alleviated this problem and provided large positive minimum cash balances for the indenture as a whole under these same scenarios. Pledging $16 million of these loans to 2014 A reduces the minimum cash balance under the most stressful run to only $2 million, e.g. close to zero.

Fortunately, the rating agencies do not only look to the RHFB cash flows alone, but also to Minnesota Housing's general obligation and the cash balances in Pool 2. Discussions with the rating agencies may indicate that the RHFB ratings will not be adversely affected if additional loans in the None account are used to allow shorter maturities on upcoming issues.

Relationship to Pipeline. Since last July and with the, at least, temporary drop in demand for pass-through bonds, Minnesota Housing has been funding all new production by selling MBS in the secondary market. The same approach used for the 2014 A issue can be used for loans currently in the pipeline. This would enable Minnesota Housing to begin financing at least a portion of new production on its balance sheet and receive full spread in future years.

Going forward, the loans in Minnesota Housing's pipeline will remain fully hedged under its TBA program until bonds are sold. At that point they will be removed from the pipeline to be included in the bond issue. As a result, Minnesota Housing avoids taking interest rate risk on new loans, in case bond rates had increased after loan reservations were taken.

TIMING AND STRUCTURE

Timing. The issue was priced on Tuesday, February 11, with closing on March 26th.

Sizing. The issue was sized at $50 million to test the attractiveness of this new approach and to limit the pledge of collateral in the "None" account to less than a third of the total available.

Major Design Decisions. Key decisions by Minnesota Housing were to:

- Use the $16 million of collateral in conjunction with this issue, while leaving remaining collateral for use with future issues or to meet rating stress tests.
- Include a large PAC bond in 2038 for 42% of the issue.
- Set the final non-PAC maturity in 2027, using serial bonds for all the other non-PAC maturities through 2024.
- Take advantage of the low rates on this bond issue to permanently fund low-rates loans now in Pool 2 at full spread.
- Use future issues to fund new production.

Rating. Bonds under the RHFB indenture are rated Aa1 by Moody's and AA+ by Standard & Poor's.

BOND SALE RESULTS. Key highlights are:

1. ***Retail Interest.*** This was the first large Minnesota Housing issue that included bonds oriented to retail buyers in almost every year (since RHFB 2013 Series A, B, C). All the non-PAC bonds were included in the order period for retail investors, and more than $ 47.5 million of Minnesota retail orders were received for the $29.3 million of non-PAC bonds. This strong demand enabled Minnesota Housing to re-price the yields on most maturities of the serial bonds to lower levels.

2. ***Institutional Interest.*** There was significant institutional interest, with the PAC bond very heavily oversubscribed. This allowed Minnesota Housing to further reduce the yield on the PAC bond to 2.17%, compared to the 2.25% projected the day before pricing.

3. ***Timing.*** During January and the early part of February, the municipal market outperformed Treasuries, with continuing strong demand for municipal bonds and very low supply providing the best start to the year for municipal bonds in 5 years. On the day of the sale, Treasuries weakened while the municipal market remained largely stable.

4. ***Successful Sale.*** The sale proved favorable, with Minnesota Housing achieving the same or tighter spreads to bond indices than other recent issuers with strong in-state demand, including Maryland and SONYMA.

Comparable Transactions. Recent single-family issues included: Maine on January 28th, Maryland on January 29th (both two weeks before Minnesota Housing's sale) and SONYMA on the same day as Minnesota.

Minnesota Housing's spread to the benchmark AAA general obligation MMD Index on the day of sale, to adjust for overall changes in the market, was about 5 basis points through Maryland's and 25 to 30 basis points through Maine's spreads. SONYMA only sold a few non-AMT serials, averaging about the same yields as Minnesota Housing.

None of the other issuers offered a PAC bond, and Minnesota Housing's PAC bond was the first of the year. The final spread achieved was 107 basis points to the 5-year MMD index, an exceptionally tight spread. (For comparison, the PAC bonds in December with the same average life from Washington State, Florida and New Mexico were about 15 basis points wider.

All in all, this was a very good performance.

UNDERWRITING

Underwriters. RBC was the senior manager; regular co-managers were Piper Jaffray and Wells Fargo. Fidelity was the third co-manager, based on their retail sales allotments on the last issue with bonds offered to retail investors (in 2013).

Retail Sales. In addition to strong retail sales by senior manager RBC, Piper Jaffray as a regular co-manager contributed significantly.

Among selling group members, Bank of America Merrill Lynch, Northland Securities and Cronin contributed the most Minnesota retail orders and received the largest allotments, shown below.

Member	Role	Minnesota Retail Orders	Minnesota Retail Allotments
RBC	Senior Manager	33,020,000	16,835,000
Piper Jaffray	Co-Manager	6,000,000	3,470,000
Wells Fargo	Co-Manager	1,760,000	835,000
Fidelity	Co-Manager added based on prior issue sales	330,000	280,000
B of A Merrill Lynch	Selling Group	1,450,000	995,000
Northland Securities	Selling Group	1,550,000	925,000
Cronin	Selling Group	1,810,000	900,000
Raymond James	Selling Group	610,000	315,000
Morgan Stanley	Selling Group	285,000	235,000
Edward Jones	Selling Group	195,000	195,000
UBS	Selling Group	425,000	175,000
Barclays Capital	Selling Group	300,000	150,000
Baird	Selling Group	30,000	30,000
City Securities	Selling Group	30,000	30,000
George K. Baum	Selling Group	0	0
Citigroup	Selling Group	0	0
Stern Brothers	Selling Group	0	0
Sterne, Agee & Leach	Selling Group	0	0
Total	Selling Group	0	0
		47,520,000	25,370,000

Among the selling group members, Bank of America Merrill Lynch had the most Minnesota retail allotments and will serve as the rotating co-manager on the next bond issue. Selling group performance varied significantly among firms, indicating:

- The benefit of continuing the use of a large and active selling group, rather than relying on only a few firms, especially given the variability from one issue to the next, and
- The value of rewarding a selling group member with the most orders by including them as a co-manager on the next issue.

Underwriter Fees. Management fees were appropriate, consistent with industry standards, and in the same range as fees reported for other housing issues of similar size and structure.

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ISSUE DETAILS

Key Dates: 2014 A Bond Pricing for RHFB Indenture

Retail Order Period:	Tuesday morning, February 11, 2014
Institutional Order Period:	Accelerated to afternoon of February 11
Closing Date:	March 26, 2014

Economic Calendar. Since the beginning of 2014, the most important economic news has been a weakening of the recovery, with only modest gains in employment rolls. Jobs increased by a tepid 113,000 in January after weak figures in November and December. While unemployment has dropped to about 6.6%, this is still well above the Fed's target of 6%. Perhaps most significant, wages were only up 1.9% in 2013 or 0.4% after inflation, which is about half the average increase over the years before the recession. Although the Fed continues with its gradual tapering of monthly Treasury and MBS purchases, the stock market dropped in January out of concern about the weakness in consumer spending power (as well as weakness in Chinese spending and continuing weakness in Europe). On the morning of the sale, wholesale inventories rose 0.6%, as expected.

Treasuries. The 10-year Treasury bond yields rose from about 2.65% in mid-November to 3% at year-end as the Fed made clear its gradual tapering policy. Yields then dropped steadily during January to a low of 2.61% on February 3. Treasury yields then rose to 2.70% the day before the sale and to 2.75% on the day of the sale itself.

Municipals. Municipal bonds have outperformed Treasuries recently, with a major rally in January. This has been especially true at the shorter end of the curve, which was most relevant to Series A.

The Municipal Bond Index increased from 111 13/32nds on January 3rd to 115 23/32 on Friday February 7 (a gain of over 4%). This is the best start to a year for municipals in 5 years. The average yield on bonds in the S&P National AMT-Free Municipal Bond Index has fallen by 32 basis points since the start of the year. The 10-year MMD is 2.52% and the 30 year MMD is 3.87%. Factors affecting municipals include:

- Volume of new issuance continues at record low levels, with 2014 volume expected to be even less than 2013's historic low. The weekly calendar is a modest $5 billion.

- With rates having increased overall since last summer, there has been renewed retail and institutional investor interest.

- Recent fund flow patterns show high grade and intermediate term inflows topping long-term withdrawals and generally supporting the relative improvement in municipal yields. There have been three weeks in a row of net inflows to municipal bond funds.

- Despite the low absolute level of rates, credit spreads continue to be relatively wide with a spread of approximately 77 basis points between the AAA 30-year G.O. MMD index and A-rated G.O.s.

- MMD as a percentage of Treasuries has dropped in the last month, although since they are still well above their 10-year average to Treasuries, municipals still appear relatively cheap and attractive.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio	30-Year Treasury	30-Year MMD	MMD/ Treasury Ratio
2010 A*	9/15/10	2.67%	2.39%	89.5%	3.79%	3.72%	98.2%
2011 A/B*	3/22/11	3.34%	3.27%	97.9%	4.44%	4.85%	109.2%
2011 C/D*	6/7/11	3.01%	2.63%	87.4%	4.27%	4.23%	99.1%
2011 E*	8/24/11	2.29%	2.26%	98.7%	3.63%	3.89%	107.2%
2011 F/G*	11/22/11	1.94%	2.18%	112.4%	2.91%	3.83%	131.6%
*2012 RHFB ABCD***	3/27/12	2.20%	1.97%	89.5%	3.29%	3.34%	101.5%
2012 A*	7/31/12	1.51%	1.66%	109.9%	2.56%	2.84%	110.9%
2012 B*	10/2/12	1.64%	1.69%	103.0%	2.81%	2.86%	101.8%
2013 A*	1/9/13	1.88%	1.69%	89.9%	3.06%	2.80%	91.5%
2013 B*	4/8/13	1.76%	1.72%	97.7%	2.91%	2.94%	101.0%
*2013 RHFB A/B/C***	5/14/13	1.96%	1.81%	92.3%	3.17%	2.93%	92.4%
2013 C	6/17/13	2.19%	2.23%	101.8%	3.35%	3.50%	104.4%
2014 RHFB A	**2/11/14**	**2.75%**	**2.52%**	**91.6%**	**3.69%**	**3.87%**	**104.9%**
Change from 2013 C to *2014 RHFB A*		**+56 bps**	**+ 29 bps**	**-10.2%**	**+ 34 bps**	**+ 37 bps**	**+2.2%**

* Homeownership Finance Revenue Bonds
** Residential Housing Finance Bonds (RHFB)

Municipal Calendar. The Minnesota competitive sale calendar was relatively light for the week of Minnesota Housing's sale with several smaller issues totaling about $40 million. The largest of these was a $10.7 million Kerkhoven Murdock school building issue on Monday morning and a Pelican Rapids school building issue on Wednesday morning. The only other proposed negotiated sale on the BondBuyer calendar was a $61 million taxable G.O. issue from Minneapolis for a downtown parking ramp.

The relative lack of Minnesota paper for local retail investors to purchase, and the lack of any large Minnesota Housing issue for almost 9 months, helped contribute to retail interest in the sale.

Minnesota Housing Finance Agency
Residential Housing Finance Bonds
Final Pricing Comparables (Non-AMT)
Traditional Structures

SALE DATE	February 11, 2014	February 12, 2014	January 29, 2014	January 28, 2014	January 24, 2014
ISSUER	Minnesota HFA	SONYMA	Maryland Dept of HCD	Maine SHA	New Jersey HMFA
AMOUNT	$50,000,000	$63,640,000	$57,515,000	$30,000,000	$11,510,000
SERIES	2014 Series A	Series 181 & 182	2014 Series A	2014 Series A-2	Series 2014G
PROGRAM	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Multifamily / Negotiated
RATING(S)	Aa1 / AA+ / -	Aa1 / - / -	Aa2 / - / AA	Aa1 / AA+ / -	- / AA+ / -
TAX STATUS	**Non-AMT**	**Non-AMT**	**Non-AMT**	**Non-AMT**	**Non-AMT**

MATURITY	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD
2014			0.185	+2					0.40	+23
2015	0.25 / 0.35	+8	0.30 / 0.35	+13	0.30 / 0.40	+13			0.45	+28
2016	0.45 / 0.55	+14	0.50 / 0.65	+19	0.45 / 0.55	+15			0.65	+35
2017	0.85 / 0.95	+34	0.80 / 0.90	+29	0.80 / 0.90	+31			1.05	+58
2018	1.25 / 1.35	+43			1.30 / 1.40	+50			1.50	+72
2019	1.65 / 1.75	+55			1.70 / 1.75	+61			1.90	+84
2020	2.10 / 2.20	+59			2.15 / 2.20	+65			2.45	+98
2021	2.50 / 2.60	+65			2.55 / 2.60	+69	2.75	+90	2.80	+98
2022	2.80 / 2.90	+64			2.80 / 2.90	+64	3.125	+100	3.10	+100
2023	3.05 / 3.10	+67			3.10 / 3.15	+72	3.40	+105	3.40	+108
2024	3.30 / 3.35	+78			3.30 / 3.35	+78	3.55	+105		
2025										
2026									3.75	+100
2027	3.75	+83								
2028							4.00	+96		
2029					4.00	+86				
2030										
2031									4.25	+97
2032					4.30	+90				
2033										
2034			4.40	+86			4.50	+97		
2035										
2037										
2038	2.17	+107								
2039			4.65	+88						
2042										
2043										
2044			4.80	+93						
2046										
2048										
2049										
2055										
	*PAC Bond Price=$108.50, Cpn=4.00%, Avg. life 5.0 years over a range of 100-500% PSA									
MKT INDEX	BBI / RBI	4.46% / 5.32%	BBI / RBI	4.46% / 5.32%	BBI / RBI	4.50% / 5.28%	BBI / RBI	4.50% / 5.28%	BBI / RBI	4.50% / 5.28%
SEN MGR	RBC Capital Markets		Morgan Stanley		JP Morgan		B of A Merrill		Citigroup	

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Minnesota Housing Finance Agency
Residential Housing Finance Bonds
Final Pricing Comparables (Non-AMT)
Traditional Structures

SALE DATE	December 17, 2013	December 17, 2013	December 11, 2013	December 10, 2013	December 5, 2013
ISSUER	Rhode Island HMFC	Washington State HFC	Florida HFC	New York City HDC	New Mexico MFA
AMOUNT	$14,745,000	$19,935,000	$50,000,000	$253,745,000	$15,000,000
SERIES	2013 Series 3-ABC	2014 Series 1N & 1NR	2013 Series C	2013 Series E-1-A, E-1-B, E-1-C	2014 Series A
PROGRAM	Multifamily / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Multifamily / Negotiated	Single Family / Negotiated
RATING(S)	Aa2 / - / -	Aa2 / - / -	Aaa / - / -	Aa2 / AA / -	- / AA+ / -
TAX STATUS	**Non-AMT**	**Non-AMT**	**Non-AMT**	**Non-AMT**	**Non-AMT**

MATURITY	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD
2014	0.30	+13			0.20	+3	0.25	+8	0.30	+13
2015	0.55 / 0.60	+22	0.65	+32	0.55 / 0.60	+22	0.50 / 0.60	+17	0.55 / 0.65	+22
2016	0.85	+35	0.90	+40	0.80 / 0.90	+30	0.80 / 0.90 / 0.75	+30	0.85 / 0.95	+35
2017	1.35	+55	1.25 / 1.35	+45	1.20 / 1.30	+40	1.25 / 1.35 / 1.20	+45	1.25 / 1.35	+44
2018	1.80	+62			1.70 / 1.80	+52	1.70 / 1.80	+52	1.70 / 1.80	+50
2019	2.25	+69			2.15 / 2.25	+59	2.15 / 2.25	+59	2.15 / 2.25	+59
2020	2.75	+79			2.60 / 2.70	+63	2.60 / 2.70	+63	2.60 / 2.70	+63
2021	3.10	+83			3.00	+71	3.00 / 3.05	+71	3.00	+70
2022	3.40	+89			3.30	+78	3.30 / 3.35	+78	3.30	+76
2023	3.65	+95	3.50	+80	3.50	+78	3.55	+83	3.50	+76
2024	3.85	+99	3.70	+84	3.70	+82	3.70	+82	3.70	+80
2025			3.85	+86						
2026										
2027					4.00	+75				
2028	4.375	+103	4.125	+78			4.15	+78	4.20	+80
2029										
2030	4.60	+103								
2031										
2032										
2033	4.85	+106					4.65	+83	4.70	+84
2034										
2035					2.38*	+120				
2037			2.05*	+125						
2038	5.00	+96					4.90	+83		
2039										
2042										
2043	5.10	+96					4.95	+79	5.00	+79
2044									2.40*	+120
2046							4.95	+79		
2048	5.20	+106								
2049										
2055										
			*PAC Bond Price=$103.587, Cpn=3.00%, Avg. life 4.0 years over a range of 75-500% PSA		*PAC Bond Price=$107.48, Cpn=4.00%, Avg. life 5.0 years over a range of 100-500% PSA				*PAC Bond Price=$107.392, Cpn= 4.00%, Avg. life 5.0 years over a range of 100-400% PSA	
MKT INDEX	BBI / RBI	4.74% / 5.37%	BBI / RBI	4.74% / 5.37%	BBI / RBI	4.70% / 5.30%	BBI / RBI	4.70% / 5.30%	BBI / RBI	4.61% / 5.23%
SEN MGR	Morgan Stanley		RBC Capital Markets		Citigroup		JP Morgan		JP Morgan	

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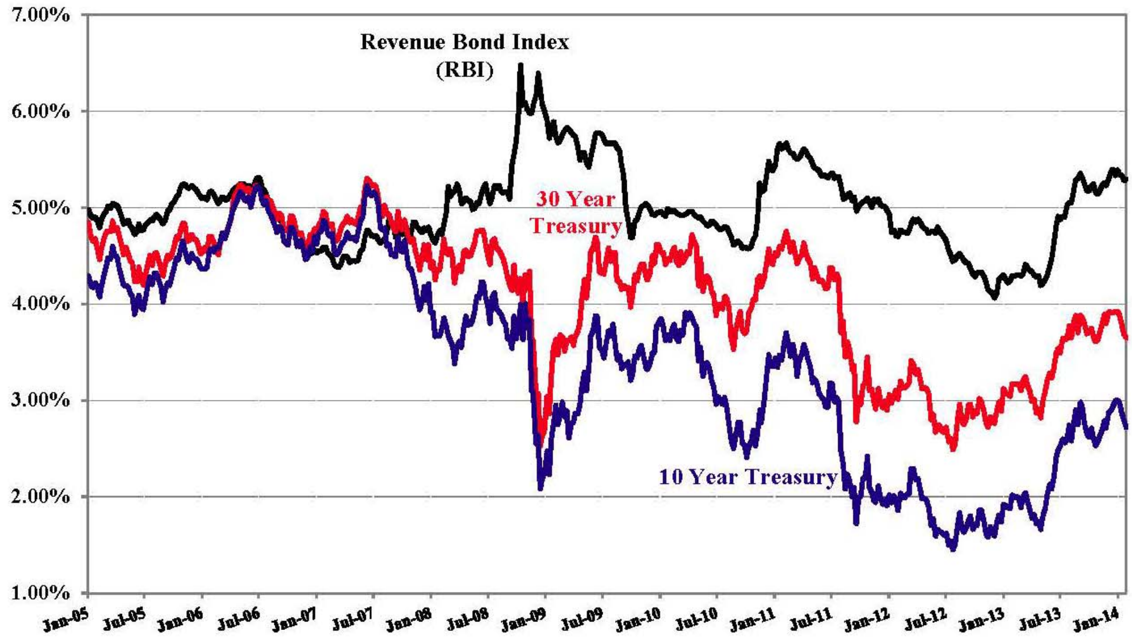
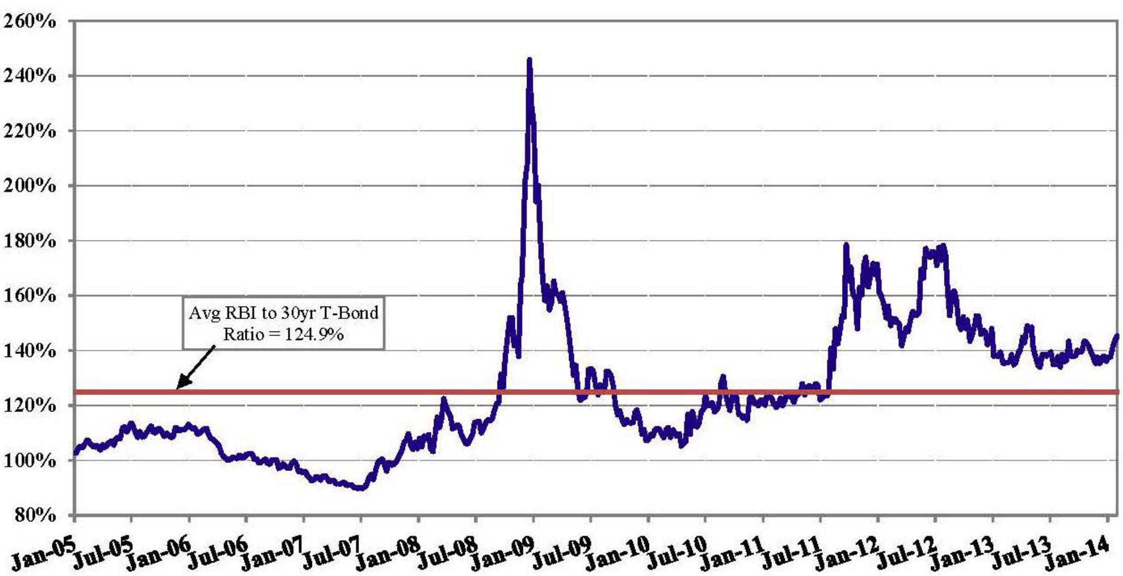
Revenue Bond Index (RBI), 10 Year, and 30 Year Treasury Jan 2005 - present



Revenue Bond Index (RBI) as a Pct of 30 Year Treasury, Jan 2005 - present



- The RBI is an index reported weekly made up of revenue bonds with 30 year maturity and an average rating of A1/A+.

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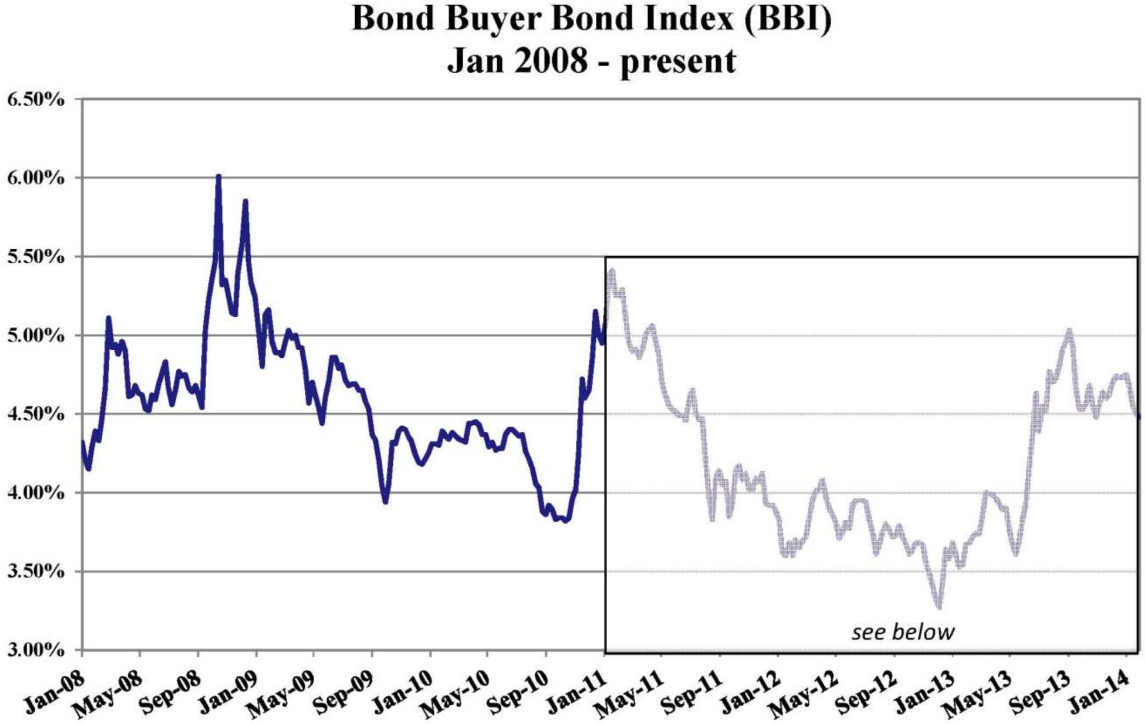

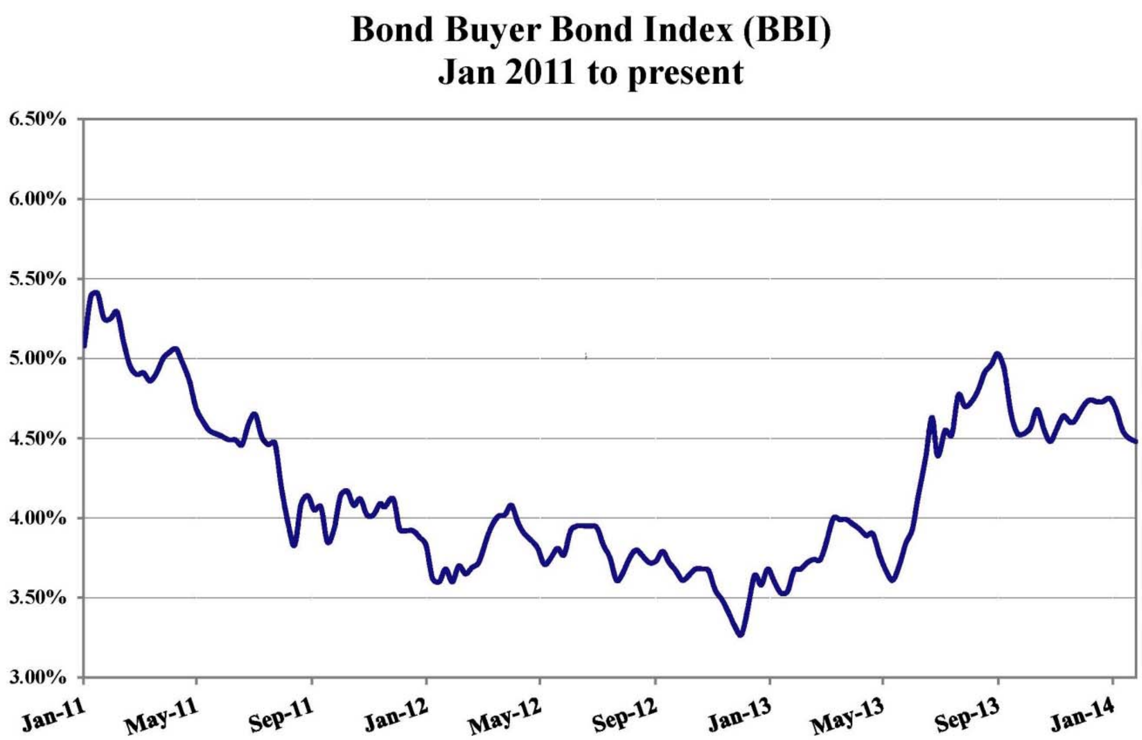

- The BBI consists of 20 general obligation bonds that mature in 20 years .
  It is reported weekly and has an average rating of Aa2/AA.

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.B
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Post-Sale Report, State Appropriation Bonds (Housing Infrastructure), 2014 Series A and B

CONTACT: Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

Paula Rindels, 651-296-2293
paula.rindels@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency sold $14,540,000 State Appropriation Bonds (Housing Infrastructure) on February 6, 2014. Pursuant to the Debt Management Policy, the attached post-sale report is provided by the Agency's financial advisor, CSG Advisors. This is an information item and does not require approval.

FISCAL IMPACT:
None

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Post-Sale Report

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Board Agenda Item: 9.B
Attachment: Post Sale Report

Via Email Delivery

MEMORANDUM

Date: **March 24, 2014**

To: **Minnesota Housing Finance Agency**

From: **Gene Slater, Eric Olson, Tim Rittenhouse**

Re: **Post-Sale Report**
$14,540,000 State Appropriation Bonds (Housing Infrastructure)
2014 Series A&B

KEY RESULTS FOR MINNESOTA HOUSING

Second of Two Housing Infrastructure Financings. The 2014 bonds represented the second and final financing supported by future annual appropriations authorized by the State Legislature in the Fiscal Year 2014/2015 biennium budget. The first financing was completed in 2013 with a total of $15,460,000 issued. The $14,540,000 of bonds in 2014 Series A&B brought the total issuance up to the $30,000,000 debt limit specified by the authorizing legislation, with combined debt service slightly under the $2,200,000 annual appropriations limit.

Purpose. Minnesota Housing issued the 2014 Series A / B State Appropriations Bonds to provide gap soft loans for a set of projects. The gap loans do not provide the security for or help repay the bonds, which are paid solely from the State's general fund appropriation. The affordable housing developments expected to benefit from these funds include:

- CommonBond VA Housing Fort Snelling, a planned 58-unit development in Hennepin County,
- CommonBond VA Housing St. Cloud, a planned 35-unit development in St. Cloud,
- Urban Homeworks Rental Reclaim V, a planned 17-unit development in Minneapolis, and
- Giwanakimin, a planned 19-unit development in Naytahwaush.

Facilitating Access to Low Income Housing Tax Credits. The prior biennium's State Appropriation Bonds were used for non-profit owned projects without Low Income Housing Tax Credits. In order to further leverage the state appropriation, the 2013 and 2014 bonds utilize private activity volume cap and enable the assisted developments to qualify for and utilize 4% Tax Credits.

The 2014 Series A bonds are private activity bonds. They can only be issued for specified projects that have already received TEFRA approval. The 2014 Series B bonds are <u>not</u> private activity bonds.

KEY FEATURES OF THE BONDS

Limited Obligations of Minnesota Housing. The bonds are not secured or guaranteed by Minnesota Housing and are payable solely from the State Appropriations.

Appropriations Risk. The Housing Infrastructure State Appropriations constitute a standing appropriation that does not require any further action by the Legislature for payments to be made in future years. As provided by Minnesota law, a standing appropriation may be reduced or repealed entirely by the Legislature; this would have significant credit consequences for the State. The bonds are rated slightly below the state General Obligation bonds because of this possible appropriation risk.

Ratings. The bonds are rated Aa2 by Moody's and AA by Standard & Poor's.

Serial/Term Bond Structure. The Series A bonds were structured with serial maturities from 2025 through 2035. The Series B bonds were structured as serial maturities from 2015 through 2025.

Original Issue Discounts and Premiums: The bonds were structured with a mix of original issue discounts and premiums. Overall, there was a net reoffering premium of $503,693.50, which fully covered all costs of issuance.

MINNESOTA HOUSING'S LOANS

Housing Infrastructure Loans. The Housing Infrastructure Loans funded by bond proceeds will be 0% interest, non-amortizing, nonrecourse deferred loans that will be forgivable if the conditions for use are met.

Additional Minnesota Housing Financing. In addition to the anticipated Housing Infrastructure Loans funded by the bonds, Minnesota Housing may make other loans to one or more of the developments.

UNDERWRITING

RBC Capital Markets served as the senior managing underwriter and Piper Jaffray & Co. and Wells Fargo Securities as co-managers.

The bonds were sold on Thursday, February 6th, with a single order period. Minnesota retail received first priority, and nearly $8 million of retail orders were received with $4.6 million through RBC and $3.4 million through the syndicate. After no orders were received for the 2027-2030 maturities, the maturities were repriced by 10 basis points. The following table shows the orders and allotments by underwriter.

ORDERS AND ALLOTMENTS

	Retail		Priority		Member		Total	
Firm	Orders	Allot-ments	Orders	Allot-ments	Orders	Allot-ments	Orders	Allot-ments
RBC Capital Markets	4,605	3,890	2,885	2,730	4,910	6,040	12,400	12,660
Piper Jaffray	1,755	1,070			3,025	160	4,780	1,230
Wells Fargo Securities	1,640	650			1,980	0	3,620	650
Total	8,000	5,610	2,885	2,730	9,915	6,200	20,800	14,540

The total underwriter's discount was $122,525.42 or approximately 0.84% of the $14,540,000 bond par amount. Takedowns were $3.75 for the 2015-2024 bonds and $5.00 for all other bonds. Management fees and takedowns were appropriate, consistent with industry standards, and in the same range as fees reported for other housing issues of similar size and structure.

MARKET CONDITIONS

Treasuries. Treasury yields rose significantly over the second half of 2013 as the Fed made it increasingly clear they would reduce Quantitative Easing bond purchases. From mid-May 2013 levels of approximately 1.80% for the 10-year and 3.00% for the 30-year, yields hit 3.00% for the 10-year and 3.90% for the 30-year by the end of December. Coming into the new year, Treasuries rallied modestly. On the February 6th pricing for Minnesota Housing's bonds, the 10-year was at 2.73% and the 30-year was at 3.67%.

Municipals. Municipal bonds got a strong start in 2014, outperforming Treasuries especially at the shorter end of the yield curve. The Municipal Bond Index gained nearly 4% in January, increasing from 111 13/32nds on January 3rd to 115 23/32nds on Friday February 7. The average yield on bonds in the S&P National AMT-Free Municipal Bond Index fell 33 basis points between January 1 and the February 6th pricing. Factors affecting municipals include:

- Volume of new issuance continues at record low levels, with 2014 volume expected to be even less than 2013's historic low.
- With rates having increased overall since last summer, there has been renewed retail and institutional investor interest.
- Recent fund flow patterns show high grade and intermediate term inflows topping long-term withdrawals and generally supporting the relative improvement in municipal yields. There have been three weeks in a row of net inflows to municipal bond funds.
- Despite the low absolute level of rates, credit spreads continue to be relatively wide with a spread of approximately 77 basis points between the AAA 30-year G.O. MMD index and A-rated G.O.s.
- MMD as a percentage of treasuries has dropped in the last month, although since they are still well above their 10-year average to treasuries, municipals still appear relatively cheap and attractive.

COMPARABLES

The attached chart shows recent comparable bond pricings. Note however that most are general obligation bonds, without the appropriation risk of Minnesota Housing's State Appropriation Bonds and without the added complications of being housing bonds (e.g. as on other housing bonds, non-compliance with affordability requirements can affect the tax-exempt status of the bonds). This critical difference explains why the Minnesota Housing bonds had generally higher spreads to MMD than the attached comparables, with the exception of the Illinois bonds which are rated lower than all the others at A-3/A-/A-.

One of the listed comparables is the State's $391 million Vikings Stadium financing, which priced the prior week. While one might expect the two financings to price similarly given the state appropriations credit, the stadium financing achieved spreads generally 10-30 basis points better than the housing infrastructure financing. This was due to the significantly smaller size of the housing infrastructure financing and the market perception of these as housing bonds, even though the state appropriations are the true credit.

The attached comparables also include Minnesota Housing's prior State Appropriations Bond issue, from August 2013. Spreads to MMD were comparable between the 2013 and 2014 issues – generally in the range of 40-70 basis points over MMD.

Minnesota Housing Finance Agency
State Appropriation Bonds (Housing Infrastructure)
Pricing Comparables

SALE DATE	February 6, 2014	February 6, 2014	January 28, 2014	January 28, 2014	January 22, 2014
ISSUER	Minnesota HFA	State of Illinois	State of Minnesota	State of Wisconsin	State of Washington
AMOUNT	$14,540,000	$1,025,000,000	$391,785,000	$231,405,000	$344,940,000
SERIES	2014 Series A & B	Series of February 2014	Series 2014A	2014 Series A	Series 2014D
PROGRAM	Approp'n / Negotiated	GO / Negotiated	Approp'n / Negotiated	GO / **Competitive**	GO / **Competitive**
RATING(S)	AA2 / AA / -	A3 / A- / A-	- / AA / AA	Aa2 / AA / AA	Aa1 / AA+ / AA+
TAX STATUS	**Non-AMT**	**Non-AMT**	**Non-AMT**	**Non-AMT**	**Non-AMT**

MATURITY	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD
2014										
2015	0.33*	+15	0.33*	+15	0.20*	+3	0.20*	+3		
2016	0.51*	+20	0.75*	+44	0.37*	+7	0.39**	+9		
2017	0.82*	+31	1.25*	+74	0.61*	+12	0.60***	+11		
2018	1.22*	+39	1.73*	+90	1.00*	+20	0.94***	+14		
2019	1.56*	+45	2.11*	+100	1.32*	+24	1.24***	+16		
2020	2.02*	+50	2.62*	+110	1.76*	+26	1.70***	+20		
2021	2.39*	+53	3.01*	+115	2.12*	+27	2.06***	+21		
2022	2.74*	+57	3.37*	+120	2.44*	+31	2.34***	+21	2.37*	+17
2023	2.95*	+57	3.65*	+127	2.66*	+31	2.53***	+18	2.59**	+16
2024	3.13*	+61	3.81*	+129	2.85*	+35	2.69***	+19	2.74**	+16
2025	3.25*	+58	4.04*	+137	3.04* / 3.02*	+39	3.12*	+47	2.88**	+15
2026	3.45*	+65	4.17*	+137	3.16*	+38	3.25****	+47	3.01**	+15
2027	3.65*	+72	4.30*	+137	3.29*	+37	3.06***	+14	3.15**	+15
2028	3.75*	+70	3.82*	+77	3.39*	+35	3.16***	+12	3.27**	+15
2029	3.84*	+70	4.70* / 4.51*	+156	3.49*	+35	3.26***	+12	3.37**	+15
2030	3.93*	+70	4.61*	+138	3.58*	+35	3.35***	+12	3.46**	+15
2031	4.00*	+68	4.70*	+138	3.67*	+35	3.44***	+12	3.55**	+15
2032	4.05*	+65	4.76*	+136	3.75*	+35	3.52***	+12	3.64**	+16
2033	4.10*	+62	4.80*	+132	4.00* / 3.81*	+52	3.60***	+12	3.71**	+16
2034	4.08*	+55	4.84*	+131			3.65***	+12	3.79**	+20
2035	4.08*	+50							3.84**	+20
2036									3.86**	+18
2037									3.90**	+18
2038					4.125* / 4.02*	+43			3.93**	+18
2039			5.04*	+129					3.96**	+18
2040										
2041										
2042										
2043					4.12*	+30				
2045										
2046										
2047										
2049										
2054										
	* Coupons range from 2-5%		* Coupons range from 1-5.25%		* Coupons range from 2-5%		* Cpn=3.0% ** Cpn=4.0% *** Cpn=5.0% ****Cpn=3.25%		* Cpn=5.25% ** Cpn=5.00%	
MKT INDEX	BBI / RBI	4.48% / 5.30%	BBI / RBI	4.48% / 5.30%	BBI / RBI	4.50% / 5.28%	BBI / RBI	4.50% / 5.28%	BBI / RBI	4.55% / 5.33%

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Minnesota Housing Finance Agency
State Appropriation Bonds (Housing Infrastructure)
Pricing Comparables

SALE DATE	January 9, 2014		December 5, 2013		November 26, 2013		November 14, 2013		November 14, 2013	
ISSUER	State of Ohio		State of New Hampshire		State of South Carolina		State of Ohio		State of Oregon	
AMOUNT	$150,000,000		$59,050,000		$85,000,000		$50,000,000		$106,940,000	
SERIES	Series 2014A		2013 Series B		Series 2013A		Series 2013A		2013 Series N	
PROGRAM	GO / Competitive		GO / Competitive		GO / Competitive		GO / Competitive		GO / Negotiated	
RATING(S)	Aa1 / AA+ / AA+		Aa1 / AA / AA+		Aaa / AA+ / AAA		Aa1 / AA+ / AA+		Aa1 / AA+ / AA+	
TAX STATUS	**Non-AMT**		**Non-AMT**		**Non-AMT**		**Non-AMT**		**Non-AMT**	
MATURITY	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD
2014					0.17*	+0				
2015	0.20*	+3	0.23*	-10	0.30**	-3	0.26*	-7	0.32*	+-1
2016	0.37*	+3	0.45*	-5	0.47**	-3	0.47**	-3	0.51*	+1
2017	0.60*	+5	0.75*	-6	0.75**	-3	0.75**	-3	0.81*	+3
2018	0.95**	+8	1.10*	-10	1.13**	-3	1.15**	-1	1.22**	+6
2019	1.38***	+15	1.49*	-7	1.49**	-2	1.56**	+4	1.60** / 1.60***	+8
2020	1.82***	+16	1.91*	-6	1.89**	-1	1.98**	+8	2.01***	+11
2021	2.20***	+17	2.28*	-2	2.21**	-1	2.31**	+9	2.33***	+11
2022	2.51***	+19	2.57*	+3	2.44**	-2	2.57**	+15	2.56***	+14
2023	2.74****	+19	2.79*	+5	2.63**	-2	2.78**	+17	2.75***	+14
2024	2.90****	+19	2.99*	+9			3.12*	+35	2.91***	+14
2025	3.04****	+19	3.14*	+11			3.27*	+36	3.07***	+16
2026	3.18****	+19	3.43**	+28			3.42*	+36	3.24***	+18
2027	3.34****	+20	3.56**	+28			3.63*	+42	3.39***	+18
2028	3.50****	+22	3.68**	+28			3.77*	+43	3.53***	+19
2029	3.62****	+23	3.80**	+28					3.65***	+19
2030	3.72****	+23	3.92**	+28					3.76***	+19
2031	3.81****	+23	4.01**	+28					3.84***	+18
2032	3.90****	+23	4.08**	+28					3.92***	+17
2033	3.96****	+23	4.14**	+28					3.98***	+17
2034	4.02****	+23							4.04***	+17
2035									4.09***	+17
2036									4.14***	+17
2037									4.20***	+19
2038									4.23***	+19
2039										
2040										
2041										
2042										
2043									4.23***	+10
2045										
2046										
2047										
2049										
2054										
	* Cpn=2.0% ** Cpn=3.0% *** Cpn=4.0% **** Cpn=5.0%		* Cpn=5.0% ** Cpn=4.0%		* Cpn=2.0% ** Cpn=5.0%		* Cpn=4.0% ** Cpn=5.0%		* Cpn=3.0% ** Cpn=4.0% *** Cpn=5.0%	
MKT INDEX	BBI / RBI	4.75% / 5.39%	BBI / RBI	4.61% / 5.23%	BBI / RBI	4.60% / 5.26%	BBI / RBI	4.56% / 5.18%	BBI / RBI	4.56% / 5.18%

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Minnesota Housing Finance Agency
State Appropriation Bonds (Housing Infrastructure)
Pricing Comparables

SALE DATE	January 28, 2014		October 25, 2013		October 24, 2013		August 14, 2013		August 6, 2013	
ISSUER	State of Minnesota		State of Minnesota		State of Minnesota		Minnesota HFA		State of Minnesota	
AMOUNT	$391,785,000		$373,940,000		$112,000,000		$15,460,000		$273,350,000	
SERIES	Series 2014A		Series 2013F		Series 2013E		2013 Series A & B		Series 2013A	
PROGRAM	Approp'n / Negotiated		GO / Competitive		GO / Competitive		Approp'n / Negotiated		GO / Negotiated	
RATING(S)	- / AA / AA		Aa1 / AA+ / AA+		Aa1 / AA+ / AA+		Aa2 / AA / -		Aa1 / AA / AA+	
TAX STATUS	**Non-AMT**		**Non-AMT**		**Non-AMT**		**Non-AMT**		**Non-AMT**	
MATURITY	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD	Coupon or Yield	Spread to MMD
2014					0.17*	-1	0.43*	+25	0.18*	+0
2015	0.20*	+3			0.34**	-1	0.73*	+30	0.43*	+0
2016	0.37*	+7	0.55*	+0	0.57***	+2	1.12*	+40	0.72*	+0
2017	0.61*	+12	0.85*	+0	0.88***	+3	1.46*	+43	1.01*	+0
2018	1.00*	+20	1.18*	+5	1.19***	+4	1.80*	+43	1.31*	+0
2019	1.32*	+24	1.55*	+2	1.56***	+3	2.15*	+45	1.62*	+1
2020	1.76*	+26	1.88*	+2	1.89***	+3	2.55*	+48	2.02*	+4
2021	2.12*	+27	2.18*	+2	2.19***	+3	2.92*	+54	2.35*	+5
2022	2.44*	+31	2.35*	+3	2.36***	+3	3.18*	+54	2.61*	+4
2023	2.66*	+31	2.50*	+1	2.53***	+3	3.39*	+59	2.77*	+4
2024	2.85*	+35	2.74**	+9	2.70***	+4	3.61*	+64	2.94*	+4
2025	3.04* / 3.02*	+39	2.91**	+10	2.85***	+3	3.84*	+69	3.12*	+4
2026	3.16*	+38	3.25***	+28	3.02***	+4	3.92*	+59	3.30*	+4
2027	3.29*	+37			3.42**	+29	4.19*	+69	3.72*	+29
2028	3.39*	+35			3.52**	+25			3.86*	+29
2029	3.49*	+35			3.66**	+27	4.34*	+59	4.03*	+34
2030	3.58*	+35			3.78**	+27			4.11*	+33
2031	3.67*	+35			3.89**	+30	4.61*	+69	4.26*	+41
2032	3.75*	+35			3.98**	+30			4.32	+41
2033	4.00* / 3.81*	+52			4.04**	+30	4.75*	+72	4.38*	+41
2034										
2035										
2036										
2037										
2038	4.125* / 4.02*	+43								
2039										
2040										
2041										
2042										
2043	4.12*	+30								
2045										
2046										
2047										
2049										
2054										
	* Coupons range from 2-5%		* Cpn=5.0% ** Cpn=4.0% *** Cpn=3.125%		* Cpn=2.0% ** Cpn=4.0% *** Cpn=5.0%		* Coupons range from 2-5%		* Coupons range from 4-5%	
MKT INDEX	BBI / RBI	4.50% / 5.28%	BBI / RBI	4.56% / 5.16%	BBI / RBI	4.68% / 5.25%	BBI / RBI	4.73% / 5.05%	BBI / RBI	4.70% / 5.05%

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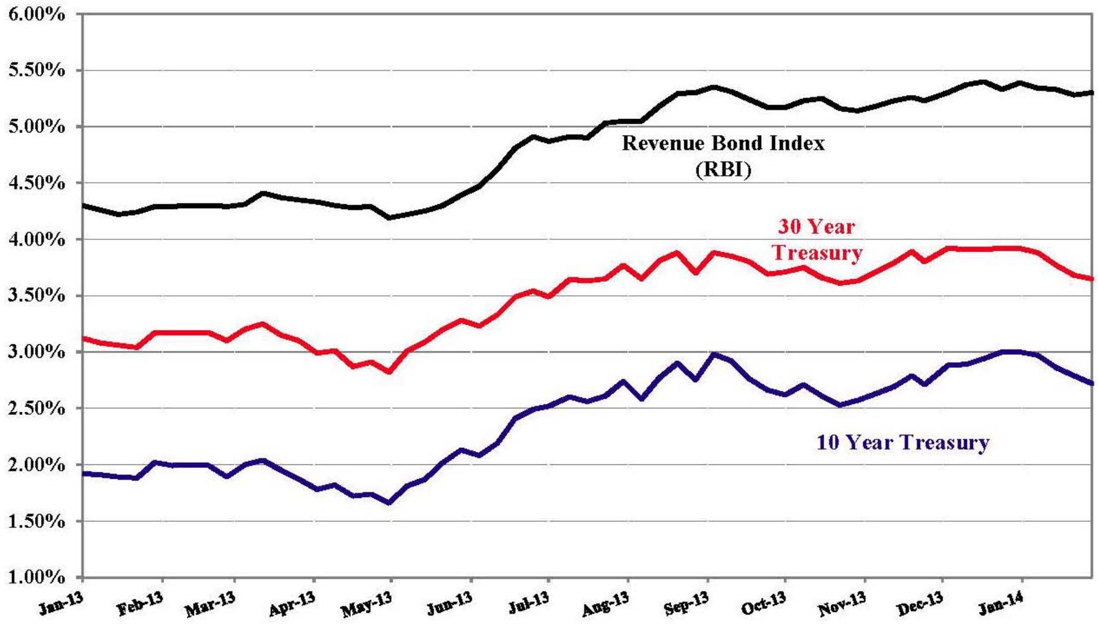
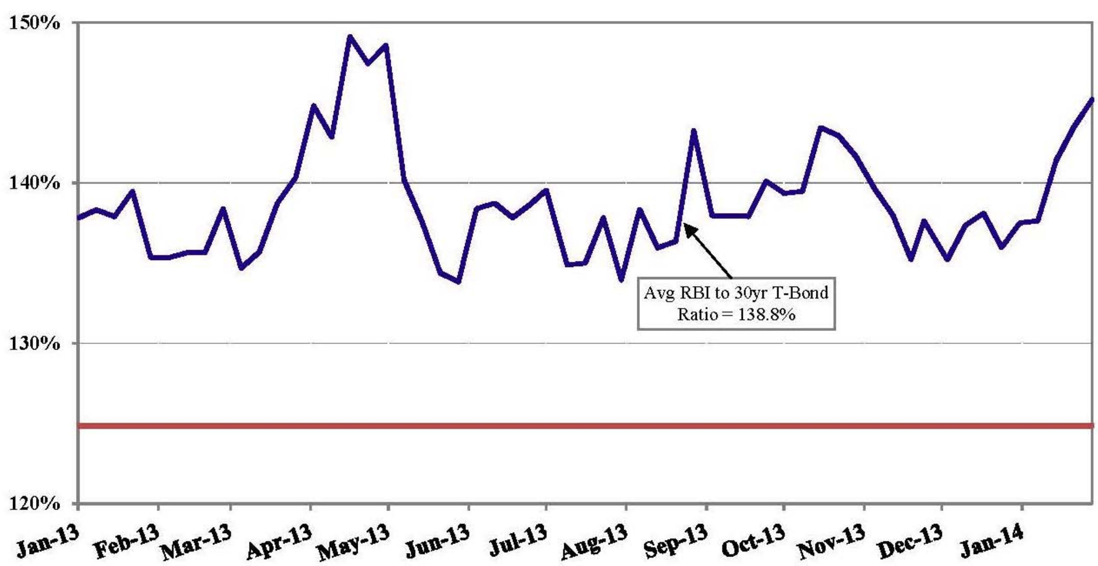
Revenue Bond Index (RBI), 10 Year, and 30 Year Treasury Jan 2013 - present



Revenue Bond Index (RBI) as a Pct of 30 Year Treasury, Jan 2013 - present



- The RBI is an index reported weekly made up of revenue bonds with 30 year maturity and an average rating of A1/A+.

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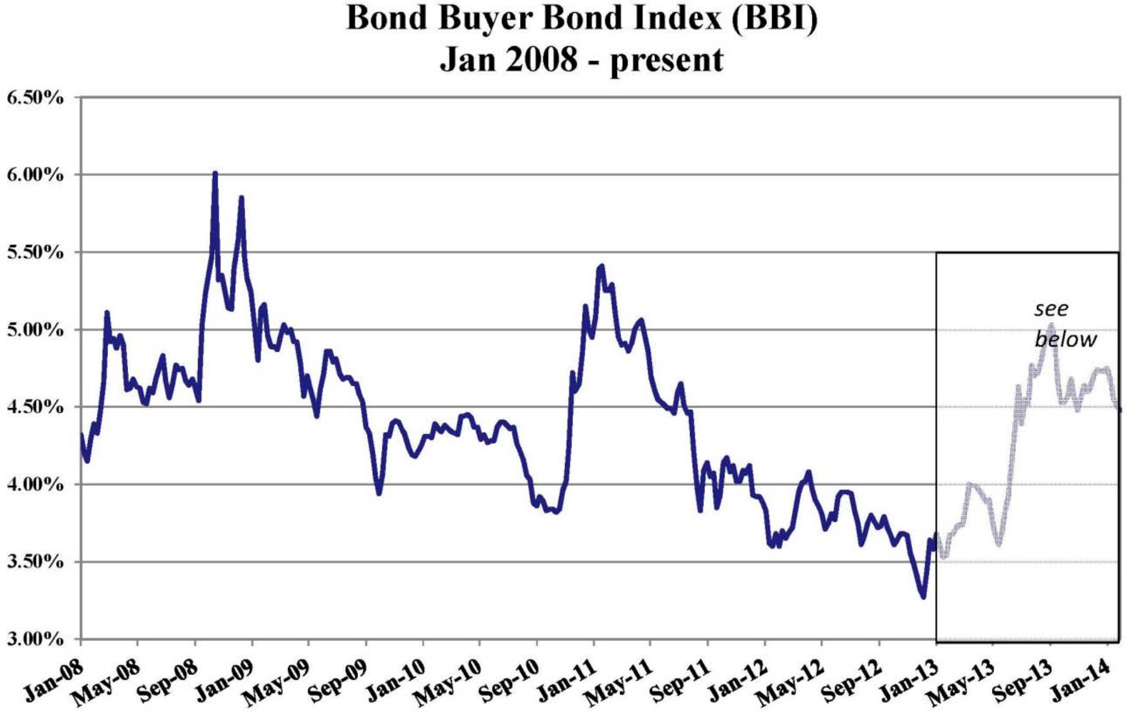

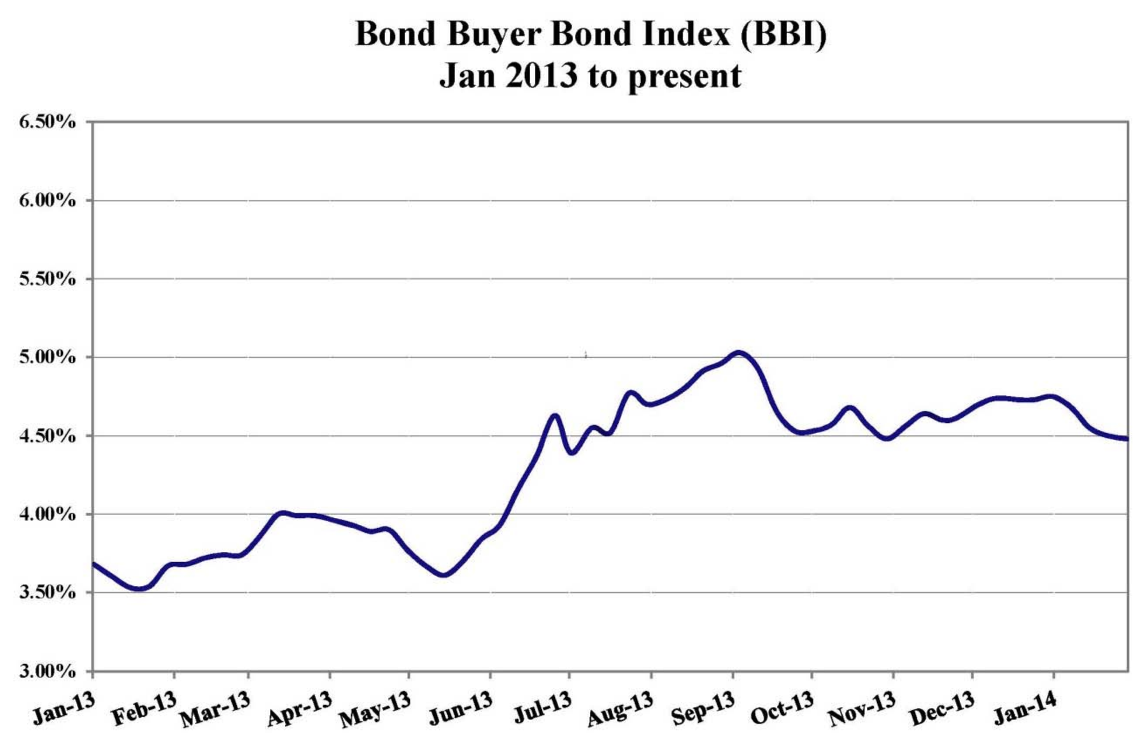

- The BBI consists of 20 general obligation bonds that mature in 20 years .
  It is reported weekly and has an average rating of Aa2/AA.

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AGENDA ITEM: 9.C.
MINNESOTA HOUSING BOARD MEETING
April 24, 2014

ITEM: Report of Action Under Delegated Authority
- Waiver of Agency Program Requirements, Quick Start Disaster Recovery Program

CONTACT: Michael Haley, 651-297-2678
mike.haley@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☑ Waiver(s)

☐ Other:

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
On October 24, 2013, the board approved several delegations of authority to the Commissioner, including delegation number 014, permission to waive certain program requirements incident to a natural disaster response. As part of execution of the Single Family Quick Start Disaster Recovery program in response to the June, 2012 Northeast Minnesota flood event, several waivers of program guidelines were executed by the Commissioner to improve program responsiveness and effectiveness in meeting flood victims recovery needs, specifically:

- Maximum assistance per property for extraordinary damage cases with multiple loans was increased to $90,000. Each case was subject to advance Agency staff review and approval.
- Multiple extensions to program application and commitment deadlines, to accommodate victim outreach and contractor availability issues.

Delegation waiver reports are required to be made to the board at the board's next meeting following the waivers. These were missed due to oversight. Staff will ensure that this process is followed for future disaster waivers.

FISCAL IMPACT:
The average Quick Start loan amount was increased slightly as a result of these waivers. Overall fund usage for the Northeast Minnesota disaster was within budgeted appropriations.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- None