MEETINGS SCHEDULED FOR APRIL

Location:

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

THURSDAY, APRIL 28, 2016

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 28, 2016.

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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Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

AGENDA
Minnesota Housing Board Meeting
Thursday, April 28, 2016
1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of March 24, 2016
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   A. HOME Investment Partnerships (HOME) and National Housing Trust Fund (NHTF) Combined Program Guide
7. **Action Items**
   A. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2016 Series ABCD
   B. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Direct Purchase SIFMA Index Flexible Drawdown Bonds
   C. Selection and Commitment of Preservation Affordable Housing Investment Fund (PARIF) Loan
   – Crossroads of Edina, D3286 Edina
   D. Housing Tax Credit (HTC) Program - 2016 Round 2 Selections and Waiting List
8. **Discussion Items**
   A. 2016 Key Trends for Affordable Housing
9. **Informational Items**
   None
10. **Other Business**
   None
11. **Adjournment**

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DRAFT MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, March 24
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair John DeCramer called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:03 p.m.
2. **Roll Call.**
   Members present: John DeCramer, Craig Klausing, Stephanie Klinzing, Rebecca Otto, and Terri Thao. Joe Johnson and George Garnett were absent.
   Minnesota Housing staff present: David Schluchter, Megan Ryan, Barb Sporlein, John Patterson, Jessica Deegan, Ashley Oliver, Terry Schwartz, Karen Johnson, Katie Topinka, Diana Lund, Gene Aho, Becky Schack, Ruth Hutchins, Cathy ten Broeke, Nick Boettcher, Will Thompson, Kevin Carpenter, Dave Moore, Tony Peleska, Mary Tingerthal, Wes Butler, Fatima Moore, Katherine Teiken, Irene Ruiz-Briseno, Eric Mattson, Que Vang, Tal Anderson, Tom O'Hern.
   Others present: Chip Halbach, Minnesota Housing Partnership; Paul Rebholz, Wells Fargo; Cory Hoeppner, RBC Capital Markets.
3. **Agenda Review**
   There were no changes to the agenda.
4. **Approval of the Minutes.**
   A. Regular Meeting of February 25, 2016
   Mr. Klausing moved approval of the minutes. Auditor Otto seconded the motion. Motion carries 5-0.
   B. Special Meeting of March 2, 2016
   Mr. Klausing moved approval of the minutes. Ms. Klinzing seconded the motion. Motion carries 5-0.
5. **Reports**
   A. Chair
   Chair DeCramer welcomed Terri Thao to the board and asked that she introduce herself. Ms. Thao shared that she is a program director with Nexus Community Partners; a community based intermediator, and had lived in Saint Paul for most her life. Ms. Thao stated she was glad to be doing work on a statewide level.
   B. Commissioner
   Commissioner Tingerthal stated the Governor had released his supplemental budget the previous week and had included a few housing initiatives in his overall equity budget. The budget includes a proposal for $5 million in additional funding to what the Agency refers to as its homeownership assistance fund, which is one of the longest standing appropriations to the Agency, going back almost 40 years. Commissioner Tingerthal added that the appropriation has never been very large and the funding is often supplemented by the Agency's own resources. Commissioner Tingerthal stated the past year has provided many opportunities for homeownership, including opportunities for households of color, adding that, if interest rates do go up, they likely will not rise a lot, so now is an important time to continue the work of increasing the rates of homeownership within the state. Commissioner Tingerthal stated $5 million in downpayment and closing cost assistance would help assist up to 800 additional households. An additional $1 million dollars in the Governor's supplemental budget would help to continue the Enhanced Financial Capacity Homeownership Initiative, a pilot program that has been funded with Pool 3 resources for the past two years. Commissioner Tingerthal stated the program continues to have a lot of momentum and more than 700 households have commenced participation in that program. The third housing initiative is a

$250,000 appropriation to the Family Homeless Prevention Assistance Program (FHPAP) to assist with the work of the Plan to Prevent and End Homelessness. This funding would help tenants who have strikes against them, such as incarceration and poor credit scores, find rental housing in the tight market by providing a financial safety net for landlords who are willing to rent to them. The fund allows reimbursement to landlords whose higher-risk tenants move out without payment or who cause damages. Commissioner Tingerthal added that the Minnesota pilot has been modeled after a program in King County, Washington, and stated that very little of the program's money has been used, but it encourages landlords to rent to these populations.

Commissioner Tingerthal shared that she had participated in an annual workshop of all the Minnesota Habitat for Humanity chapters where she talked with them about engaging with their communities, and shared information about the Housing and Community Dialogues that the Agency co-hosts around the state. Commissioner Tingerthal also thanked attendees for participating in the Impact Fund and for undertaking the programs they administer for housing rehabilitation throughout the state. Following the event, which was held in Grand Rapids, Commissioner Tingerthal toured a project that is under construction there.

Commissioner Tingerthal made the board aware of an initiative for a state funded companion low income housing tax credit that would piggyback on the federal 4% tax credit. Commissioner Tingerthal stated that this credit could allow a development receiving tax exempt bonds and federal 4% credits to double their purchasing power for the first six years by utilizing the state credit. The initiative, which has secured legislative sponsors, would be governed by the federal tax credit parameters and has been deliberately designed that way to ease the compliance burden. The initiative is being referred to as a workforce housing credit by the group that is seeking the legislation. The criteria require affordability sets aside 50% of available funds for use in Greater Minnesota.

Next, Commissioner Tingerthal shared that she and staff had participated in a workforce housing summit in Austin, Minnesota on March 7. The event was hosted by Congressman Walz and had more than 100 attendees. A productive discussion about affordable workforce housing took place at the summit.

The following employee introductions were made:

- Commissioner Tingerthal introduced Kevin Carpenter, who was in his third week as Chief Financial Officer. Mr. Carpenter stated he was looking forward to the opportunity to work with staff to demonstrate responsible fiscal stewardship for the resources within control of the Agency. Mr. Carpenter was previously with the City of Minneapolis and has been employed in investment banking and public finance in the private sector.

- Tony Peleska introduced Dave Moore, who has joined the Agency as a business analyst assisting with the Multifamily Remodel project and other technical projects. Mr. Moore has experience as a program manager at UCare and has held engineering, project management, and business analysis positions. Mr. Moore has a degree in electrical engineering, an MBA from St. Thomas, and is PMP certified.

- Katie Topinka introducing Fatima Moore, legislative intern who assists with tracking legislation and attending hearings. Ms. Moore is a temporary employee through the Capitol Pathways Program, which is hosted by the Citizen's League and works to engage more people at the capitol so that the people setting policy for the state are more representative of the people who live in the state. Ms. Moore is a student at Saint Scholastica and will graduate from the social work program in December. Mr. Moore is also employed as a program consultant with Adkins Consulting, co-founded the Liberian youth network and has participated in ECFE and the Citizen's Financial Advisory Council of her local school district.

- Diana Lund introduced Katherine Teiken, energy fellow. Ms. Teiken has a Masters in environmental policy and was previously employed with Southwest Minnesota Housing Partnership, where she worked on energy programs. Ms. Teiken's position is funded through a grant and she will be working to build relationships between the development community and utility providers, and will also work with the PBCA/TRACS/HAPs team on benchmarking.

Commissioner Tingerthal notified the board they would be contacted to schedule committee meetings in May and August related to the annual audit.

C. Committee.

None.

6. Consent Agenda

A. Revision, Community Homeownership Impact Fund Scoring for the 2016 Single Family Request for Proposals

Regarding the scoring revisions, Chair DeCramer asked that staff clarify how a new organization could be successful when it is required that applicants have related housing experience and successful completion of work. Mr. Nick Boettcher responded that staff reviews the financial capacity of new organizations and allows organizations to partner with more experienced organizations to provide assurance of successful initiative implementation. **MOTION:** Auditor Otto moved approval of the scoring revisions. Ms. Klinzing seconded the motion. Motion carries 5-0.

B. Approval, New Initiative, Community Fix Up Loan (CFUL) Program - Lakes and Pines Community Action Council, Inc.

MOTION: Ms. Klinzing moved approval of the new initiative. Ms. Thao seconded the motion. Motion carries 5-0.

C. Approval, Initiative Renewal, Community Fix Up Loan (CFUL) Program - - Housing and Redevelopment Authority of the City of St. Paul

MOTION: Mr. Klausing moved approval of the initiative renewal. Auditor Otto seconded the motion. Motion carries 4-0, with Ms. Thao recusing herself.

7. Action Items

A. Approval, Homebuyer Education Counseling and Training (HECAT) Funding

Ms. Que Vang presented this request to approve a new administrator in the HECAT program. Ms. Vang provided background information on the program, stating it is funded through the Affordable Housing Plan using state appropriations and co-funder leverage. Ms. Vang stated the program does not provide income for the Agency, but supports the strategic priority of reducing homeownership disparities. Ms. Vang stated 39 grantees had been selected for the current program year and one grantee has discontinued their homeownership counseling services to more closely align with their newly developed strategic priorities. This grantee, The Village, primarily provided service in the Fargo-Moorhead area. The Homeownership Center identified Lakes and Prairies Community Action Partnership to cover the gap in service resulting from the The Village's withdrawal from the program. Ms. Vang stated that staff at Lakes and Prairies would be trained and certified for counseling by the end of June. Ms. Vang recommended that $15,000 from the strategic contingency fund be provided to allow Lakes and Prairies to provide services through the remainder of the current program year.

Ms. Klinzing inquired what would happen with the clients who had been receiving counseling from The Village if Lakes and Prairies was not currently certified. Ms. Vang responded that Lakes and Prairies would be providing the homeownership education services to existing clients, adding that the organization has co-hosted training with The Village and their staff is familiar with the homeownership education program. **MOTION:** Ms. Klinzing moved approval of this request. Ms. Thao seconded the motion. Motion carries 5-0.

B. Funding Recommendation and Extension of Pilot, Rental Rehabilitation Deferred Loan (RRDL) Pilot Program

Mr. David Schluchter requested approval of program model and project specific applications for funding under the Rental Rehabilitation Deferred Loan program. Mr. Schluchter also requested approval to shift funding from the project specific model to the 10% forgivable model, as well as an extension of the pilot to December 31, 2018.

Mr. Schluchter provided background information on the program, stating its primary focus is to provide resources for moderate rehabilitation of rental properties in Greater Minnesota. Mr. Schluchter stated that staff made adjustments to the program criteria, most recently in May of 2015, to increase the utilization. Mr. Schluchter described for the board the delivery, property eligibility, and repayment terms for the program and shared that, while the program is operated through administrators, individuals may apply directly to Minnesota Housing if they are an administrator who also is an owner, or if they are located in an area where there is not administrator coverage.

Mr. Schluchter stated eight program model applications had been received, with seven from previous participants. One project specific application was received for a 12-unit building where all units receive rent assistance subsidy. Ms. Thao inquired about demand for the program. Mr. Schluchter responded that the 1-4 unit loans, which are 100% forgivable, are designed to attract small property owners and acknowledged that, while there is demand, there are also some gaps.

Chair DeCramer asked that staff explain the impact for the two organizations that were not fully funded. Mr. Schluchter responded that previous funding cycles had made awards below the requested minimum amounts and applicants have been receptive to a smaller loan and have been able to go forward with their projects. **MOTION:** Ms. Thao moved approval of the RRDL funding recommendations, extension of the pilot program, and the adoption of Resolutions No. 16-008, 16-009, 16-010, 16-011, 16-012, 16-013, 16-014, 16-015, and 16-016. Auditor Otto seconded the motion. Motion carries 5-0.

C. Approval, 2016 Annual Action Plan for HOME and HOPWA

Ms. Jessica Deegan requested adoption of the 2016 annual action plan for HOME and HOPWA, stating the plan is required by HUD to receive block grant funding for the two programs. Ms. Deegan stated the major purpose of the plan is to describe how these and other community development and planning funds will be deployed by Minnesota Housing, DEED, and the Department of Human Services to address the combined goals of providing decent housing, a suitable living environment, and expanding economic opportunities for low- to moderate-income residents in the state as well as help meet the goals of the five year consolidated plan that was approved by the board in 2012.

Ms. Deegan stated the 2016 HOME allocation is just under $6 million dollars, which is a small increase from 2015 and half the allocation received in 2010. The HOPWA allocation has increased $5,000 to a total allocation of $150,000. The use of HOME and HOPWA funds described in the action plan are consistent with the 2016 AHP.

The Agency awards HOME funds directly to owners and applicants for constructing new or rehabilitating existing affordable housing developments. HOME funds are available throughout the state and are part of the pool of deferred capital funds available through the RFP and are also available on a pipeline basis.

HOPWA provides temporary emergency rental and homeownership assistance to persons with HIV and AIDS in Greater Minnesota. A Minneapolis grant covers a 13 county metro area. These funds are run through the Minnesota AIDS project, a nonprofit organization in the state.

Ms. Deegan stated the draft annual action plan included the National Housing Trust Fund when the plan was circulated for public comment, but is not included in the version for which approval is being sought because the funding amount for the program is not known at this time. When funding for the program is announced, the board will be asked to approve a substantial amendment to the action plan that will include the National Housing Trust Fund. Ms. Deegan stated the National Housing Trust Fund funds will be included in the RFP as a deferred funding resource.

Ms. Thao inquired how the Agency can think more deeply and have greater community engagement when soliciting public input and suggesting using different mediums than one or two public comment forums. Ms. Deegan responded that she anticipates using better and more modern methods of engagement in the future.

Auditor Otto inquired if a listed funding amount of $0 on page 50 of the board packet was in error and Ms. Deegan responded that she would check with our partners about the figure. Auditor Otto also notified staff of a disagreement between the jobs creation numbers on pages 64 and 69 of the board packet. **MOTION:** Auditor Otto moved to approve the action plan. Ms. Thao seconded the motion. Motion carries 5-0.

8. Discussion Items

A. Minnesota's Plan to Prevent and End Homelessness

Ms. Cathy ten Broeke, State Director to Prevent and End Homelessness, presented the board with information regarding the state's two year plan to prevent and homelessness. Ms. ten Broeke stated the Minnesota Interagency Council on Homelessness, a council comprised of the commissioners of eleven state agencies, had approved the new plan in January, 2016.

Ms. ten Broeke reviewed a timeline of homeless counts in Minnesota since 2011, stating that there had been a 10% decrease in family homelessness and a 17% decrease in homelessness among families with children since 2011. Ms. ten Broeke stated the goals of the previous plan included to prevent and end veteran's homelessness by 2015, chronic homelessness by 2017, and youth and family homelessness by 2020. Ms. ten Broeke stated that a veteran's registry has been established and there are just over 200 veterans on that registry, half of whom are looking for housing. Ms. ten Broeke stated that the landlord risk mitigation fund discussed previously is a key part of the work to end homelessness.

Ms. ten Broeke stated the goals of the state plan align with the goals of the federal plan and shared information about two specific goals: 1. Prevent and end homelessness for minor youth by the end of 2017. This is a relatively small group of people, with 942 youth (individuals under 25) total, including 145 minors. This is not a huge number of young people but is a very vulnerable group and some of them are parenting; 2. Parenting youth, who are people under age 25 with young children. In many communities, this group makes up a very large percentage of homeless families.

Ms. ten Broeke stated that ending homelessness does not mean that no one will ever again have a housing crisis or become homeless, but preventing homelessness whenever possible and making incidences of homelessness rare, brief and non-recurring. Ms. ten Broeke shared strategies and actions in the plan and shared a graphic illustrating the two years of actions.

Ms. ten Broeke shared specific strategies and actions for each identified group, stating there are eight big areas of work and cross cutting priorities that will impact all the target populations. She then reviewed the goals and actions for the target areas of veterans, minor youth and parenting youth, stating that a Hennepin County pilot for parenting youth has resulted in less usage and relies upon interdepartmental cooperation and coordinated resource delivery. Ms. ten Broeke stated that, where data has been used, that is where the results are being seen; adding that data doesn't just tell us where we get results, but shows us how to get results.

Ms. Thao stated she has been hearing that the concept of couch surfing is very common in communities of color and inquired how that is being addressed and tracked. Ms. ten Broeke responded that HUD does not count people who are doubled up, but the state asks counties to ask those questions and, in Greater Minnesota and in communities of color, that number is high. Ms. ten Broeke added that there are fewer shelter opportunities in Greater Minnesota.

Mr. Klausing inquired how much impact the great recession had on homelessness and how much the overall improvement in the economy has contributed to the reduction in homelessness. Ms. ten Broeke responded that the recession dramatically impacted the number of homeless people in the state; the number persons experiencing homelessness had been going down and then recession created a large increase. Ms. ten Broeke stated that a better economy does not necessarily mean an improvement and in some communities the improvement has not been as good, despite the improved economy. Commissioner Tingerthal added that the dark side of an improving economy is low vacancy rates and rising rents. Many people who experience homelessness have barriers to being the first chosen by landlords who have multiple applicants. There are many forces that will continue to make getting safe affordable housing more difficult when there is an economic expansion, even though there is an increase in the number of people who have jobs. Ms. Tingerthal stated that, since 2000, the purchasing power of incomes has gone down at the same time the real cost of housing has gone up and that gap is getting bigger.

Ms. Klinzing stated she was excited to see this concerted effort to bring everyone to the table to solve these problems. Ms. Klinzing stated that she has throughout her career heard this perception that the government is there to provide housing and, unfortunately, most of what can be offered is two weeks in a hotel, or in a shelter out of their community, or the use of one-time emergency funds and she feels that now the perception that the government can help is becoming a reality. Ms. Klinzing stated that veteran homelessness is an important issue, but, for persons who have been incarcerated, the issues holding them back are out of their ability to control and she hoped that there would be a continued focus on those people. Ms. Klinzing added that utilizing the faith communities is important because they have a desire to help with housing and homelessness; it is a ministry field for them. She suggested that we tap in to what the faith community can do and what they can offer. Ms. Klinzing reiterated that she was excited to finally be seeing progress and was looking forward to a time when she would get a call from someone who needs a place to stay and she will be able to say "call here" and they can get housed quickly before other things happen to them that make it even harder for them to be housed. Ms. ten Broeke responded that there was still a long way to go but acknowledged the importance of bringing state agencies together and also shared information about the opportunity to use coordinated entry to know how many people were seeking assistance and what assistance was available.

Mr. DeCramer inquired about what information has been shared with blue ribbon communities. Ms. ten Broeke responded that information has been shared with various communities, adding that veterans are identified in part by involving those types of organizations.

Commissioner Tingerthal stated that following the publication of the plan, she, Ms. ten Broeke and staff from the Office to Prevent and End Homelessness had individual meetings with each council commissioner around the pledges they made in the plan. Commissioner Tingerthal characterized those meetings as heartwarming and stated that finding solutions to homelessness is no longer a burden on individual communities because state agencies have taken ownership of the issue.

Ms. Thao commended the work and progress and stated that it is important the story be told in a digestible format to others. Discussion item. No action needed.

9. Informational Items

A. Quarterly Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)

B. Post-Sale Report, Homeownership Finance Bonds, 2016 Series B

Information items. No discussion or action.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 2:22 p.m.

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Board Agenda Item: 6.A
Date: 4/28/2016

Item: HOME Investment Partnerships (HOME) and National Housing Trust Fund (NHTF) Combined Program Guide

Staff Contact(s):
Lori Speckmeier, 651.296.9538, Lori.Speckmeier@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff requests approval of the revised HOME Investment Partnerships (HOME) and National Housing Trust Fund (NHTF) Combined Program Guide. The Guide has been revised to reflect further guidance from the Department of Housing and Urban Development (HUD) received on the HOME Program and to incorporate requirements for the new Housing Trust Fund program.

Fiscal Impact:
Minnesota's 2016 HOME award is $5,978,110 and the National Housing Trust Fund award is estimated to be $3,000,000. Both programs are federally-funded grants, of which 10% may be used for program administration.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Guide

Minnesota Housing has administered the HOME Investment Partnerships Program since 1992. The Department of Housing and Urban Development (HUD) issued the new HOME Final Rule on July 24, 2013. The rule was established with varying effective dates and further guidance is forthcoming on several items. The Program Guide has been revised to incorporate further guidance received to date.

The Housing and Economic Recovery Act of 2008 (HERA) amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and established the National Housing Trust Fund as a formula grant to States to be administered by HUD, and funded through a percentage of Fannie Mae and Freddie Mac's earnings. However, shortly after enactment of HERA, these entities were placed in conservatorship and contributions to the National Housing Trust Fund were suspended. In December 2014, the director of the Federal Housing Finance Agency directed Fannie and Freddie to resume contributions, and HUD issued the interim rule for the program on January 30, 2015, modeled after the HOME program regulations. Because program requirements are substantially similar, the National Housing Trust Fund program guide is being incorporated into the existing HOME program guide. Implementation of this new program is subject to receipt of the funds from HUD, as well as an amendment to the Annual Action Plan. The NHTF award amounts are expected to be announced by HUD within the next two months. Minnesota Housing has been designated by the Governor to receive the funding and the Legislature has authorized the agency to spend the funds.

The following program comparison chart outlines the two programs:

Categories	NHTF Program	HOME Program
Statutory Authority	Title I of the Housing and Economic Recovery Act of 2008	Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended
Regulatory Authority	24 CFR Part 93	24 CFR Part 92
Purpose	Production or preservation, primarily of rental housing, affordable and available to extremely low-income households State determines: • Priority housing need throughout the state	• Preserve the supply of decent, safe, and sanitary affordable housing for low-income individuals and families • Meet identified priority housing needs, through development or rehabilitation of rental housing State determines: • Priority housing need throughout the state
Allocation	Formula	Formula

Categories	NHTF Program	HOME Program
Formula Factors	Shortage of standard housing: • Overcrowding, having incomplete kitchen facilities, having incomplete plumbing, or a high rent to income ratio • Affordable to very low- and extremely low-income (below 50% AMI and 30% AMI) households; weighted toward extremely low-income households • High rent to income ratio ≥ 50% of income for rent • Cost of producing housing relative to national average	Shortage of standard housing: • Overcrowding, having incomplete kitchen facilities, having incomplete plumbing, or a high rent to income ratio Rental households in poverty: • Poverty relative to national average • Inadequate housing – low vacancy, poor renters • Pre-1950 housing stock occupied by poor households • Fiscal incapacity • Cost of producing housing relative to national average
Minimum Income Targeting	When NHTF funds are less than $1 billion: • 100% for extremely low-income households (≤ 30% AMI or families with incomes at or below the poverty line (whichever is greater) When NHTF funds are greater than $1 billion: • 75% for extremely low-income households (≤30% AMI or families with incomes at or below the poverty line (whichever is greater) • Up to 25% for very low-income households (< 50% of AMI)	Regardless of the amount of the award to Minnesota Housing: • 100% for low-income households (≤ 80% of AMI) • 90% (of rental units and TBRA) for households at ≤ 60% AMI • 20% of rental units in projects of more than 5 HOME units for households at < 50% AMI
Eligible Activities	• New construction • Acquisition or acquisition and rehabilitation • Operating costs assistance (up to one third of annual grant)	• New construction • Acquisition • Acquisition and rehabilitation

Categories	NHTF Program	HOME Program
Limits on Eligible Activities	Minnesota Housing will be using NHTF for rental properties	Minnesota Housing will be using HOME for rental properties
Rents	• Rents plus utilities are capped at 30% of the income of a household whose income is 30% of area median income (AMI)	• High HOME rents (including utilities) are capped at the lesser of: the Fair Market Rent (FMR) for the area or 30% of the income of a household whose income is 65% of AMI. • Low HOME rents (including utilities) are capped at 30% of the income of a household whose income is 50% of AMI, or, if there is federal or state project-based rental assistance, 30% of the tenant's adjusted gross income
Maximum Per-Unit Subsidy Limits	Limits are set by Minnesota Housing	Interim Policy - CPD-15-003 Section 234-Condominium Housing, elevator-type Section 234 basic mortgage limits will be used in place of the Section 221(d)(3) limits until further HUD guidance. • Cannot exceed 240 percent of the Section 234 basic mortgage limit
Affordability Periods	Rental Projects-New Construction, Rehabilitation, Rehabilitation and Acquisition, • 30 years	Rental Projects-Rehabilitation, Rehabilitation and Acquisition, • 5,10, 15 years depending upon the amount of the HOME investment Rental Projects-New Construction • 20 years

Categories	NHTF Program	HOME Program
Funds Commitment / Expenditure Deadlines	24 months/5 years	24 months/5 years
Federal Cross Cutting Requirements	• Environmental Reviews • Uniform Relocation Act • Section 3 • Minority Business Enterprise • Women Business Enterprise • Lead-Based Paint • Fair Housing-Accessibility • Fair Housing-Marketing • EEO-included in contracts Debarment/Suspension	• Environmental Reviews • Uniform Relocation Act • Section 3 • Minority Business Enterprise • Women Business Enterprise • Lead-Based Paint • Fair Housing-Accessibility • Fair Housing-Marketing • EEO-included in contracts Debarment/Suspension • Davis Bacon and Related Acts

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Home Investment Partnerships (HOME) and National Housing Trust Fund (NHTF) Combined Program Guide

April 2016

Table of Contents

Regulations

Program specific federal statutes and rules referenced in this guide can be found at the links below:

- HOME Investment Partnerships Program
- National Housing Trust Fund Program
- Minnesota Statutes and Rules - Office of the Revisor of Statutes

Federal Cross-Cutting Requirements

HOME and NHTF are federal funds that require compliance with various cross cutting requirements, which impacts the entire project. The Initiation of Negotiations (ION) for the cross cutting requirements are triggered differently for each of the funding sources and type.

- NHTF Operating Subsidy
  - Completing the Intent to Apply (ITA) for NHTF Operating Subsidy triggers the ION for all applicable cross cutting requirements. The NHTF Funding Application Certifications (NHTF 1) would be signed and submitted along with the ITA.
- The pool of deferred funds (HOME and NHTF)
  - The signing of the NHTF Funding Application Certifications (NHTF 1) and/or the HOME Funding Application Certifications (HOME 1) triggers the ION for all applicable cross cutting requirements. The certification form is signed after the project has been selected for funding.

The owner/developer is required to comply with all applicable cross cutting requirements. No choice limiting actions can be taken after the ION has been triggered for these specific funds. In order to be compliant, an owner/developer is prohibited from expending funds or taking any action that would preclude the selection of alternative choices until the environmental review process is complete.

This chart helps identify some, but not all, of the major federal cross cutting requirements, their trigger points and the term of compliance with the requirement. More detailed explanations of these requirements can be found throughout relevant guides required as part of Minnesota Housing's Consolidated Request for Proposals (RFP) and in the Code of Federal Regulations. Violating the choice limiting actions could cause the federal funds to be denied for the project. If you have questions about choice limiting actions, please contact your assigned underwriter.

Requirement	Trigger Point	Term of Requirement
Environmental Reviews *re: choice limiting actions, please refer to 24 CFR part 93.301	ION (Initiation Of Negotiations)	ION – clearance or release of funds
Uniform Relocation Act	ION	ION – project construction closeout
Section 3	ION	ION – project construction closeout
Minority Business Enterprise – Women Business Enterprise	ION	ION – project construction closeout
Davis Bacon and Related Acts HOME	ION	ION – project construction closeout
Davis Bacon and Related Acts NHTF	None	None
Lead-Based Paint	ION (pre-1978 construction date)	ION - ongoing
Fair Housing-Accessibility	ION	ION - ongoing
Fair Housing-Marketing	ION	ION - ongoing
EEO-included in contracts	ION	ION – project construction closeout
Debarment/Suspension	ION	ION – project construction closeout
Physical Condition Standards	ION	ION – term of the loan

Chapter 1 – Introduction

1.01 Background

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

1.02 HOME and NHTF Program Purpose and Descriptions

The information presented in this guide is not intended as a complete description of the owner/developer's responsibilities under the US Department of Housing and Urban Development's (HUD) Home Investment Partnerships (HOME) and National Housing Trust Fund (NHTF) programs.

Unless a provision is noted as "HOME Only" or "NHTF Only", all provisions of this guide apply to both programs. Noncompliance by the owner/developer with certain HOME and NHTF program requirements may have serious financial consequences.

HOME

The HOME program preserves the supply of decent, safe and sanitary affordable housing for low-income individuals and families. Minnesota Housing gives priority in its Consolidated RFP to projects faced with risk of opt-out from federal subsidy programs (e.g., Section 8). Funding can also be provided for stabilization of existing non-federally assisted projects.
The HOME program provides any of the following activity types:

- New construction
- Acquisition with rehabilitation
- Rehabilitation without acquisition

NHTF

The NHTF program provides opportunities to increase or preserve the supply of multifamily rental housing for extremely low- and very low-income families, including homeless families.

The NHTF program provides financing for any of the following activity types:

- New construction
- Acquisition with rehabilitation
- Rehabilitation without acquisition
- Operating Subsidy with one of the above

1.03 Highlights of the Recently Released HOME Final Rule

The 2013 HOME Final Rule contains many new provisions that impact how Minnesota Housing administers HOME activities. It also codifies existing policy guidance that has been previously issued by HUD and addresses a number of technical and non-substantive "housekeeping" items within the HOME regulation. This guide specifies areas where Minnesota Housing has implemented more restrictive requirements.

The provisions of the HOME Final Rule listed below are of particular importance as they relate to changes in how the HOME program is administered. Details can be found in subsequent chapters specific to the change.

- Revised commitment and completion deadlines
- New occupancy deadlines
- Regulatory guidance to strengthen performance in the production and preservation of HOME- assisted projects
- Long term financial viability of the HOME project over its affordability period
- HOME projects are required to maintain property conditions throughout the affordability period
- Capital needs will be evaluated during underwriting to plan for major systems repairs
- Reserves deposits must be sufficient to ensure the useful life of essential building components throughout the period of affordability
- CHDO qualification and capacity requirements increased

1.04 Highlights of the Recently Released NHTF Interim Rule

In January 2015, HUD published an Interim Rule (FR-5246-I-03) that provides guidelines for states to implement the NHTF. The provisions of the NHTF Interim Rule listed below are of particular importance as they relate to how NHTF will be administered. Details can be found in subsequent chapters specific to the change.

As HUD releases additional guidance for NHTF, Minnesota Housing will continue to update program policies and protocols to align with the NHTF Interim Rule. Where possible, the NHTF program will align with the HOME program.

Unique components of NHTF:

- Labor Standards – not required
- Operating Cost Assistance and Operating Cost Reserves (Operating Subsidy)
- All NHTF-assisted rental housing must meet a minimum affordability period of 30 years

1.05 Program Comparison Chart

Categories	NHTF Program	HOME Program
Statutory Authority	Title I of the Housing and Economic Recovery Act of 2008	Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended
Regulatory Authority	24 CFR Part 93	24 CFR Part 92
Purpose	• Production or preservation, primarily of rental housing, affordable and available to extremely low-income households State determines: • Priority housing need throughout the state	• Preserve the supply of decent, safe, and sanitary affordable housing for low-income individuals and families • Meet identified priority housing needs, through development or rehabilitation of rental housing State determines: • Priority housing need throughout the state
Allocation	Formula	Formula
Formula Factors	Shortage of standard housing: • Overcrowding, having incomplete kitchen facilities, having incomplete plumbing, or a high rent to income ratio • Affordable to very low- and extremely low-income (below 50% AMI and 30% AMI) households; weighted toward extremely low-income households • High rent to income ratio ≥ 50% of income for rent • Cost of producing housing relative to national average	Shortage of standard housing: • Overcrowding, having incomplete kitchen facilities, having incomplete plumbing, or a high rent to income ratio Rental households in poverty: • Poverty relative to national average • Inadequate housing – low vacancy, poor renters • Pre-1950 housing stock occupied by poor households • Fiscal incapacity • Cost of producing housing relative to national average
Minimum Income Targeting	When NHTF funds are less than $1 billion: • 100% for extremely low-income households (≤ 30% AMI or families with incomes at or below the poverty line	Regardless of the amount of the award to Minnesota Housing: • 100% for low-income households (≤ 80% of AMI) • 90% (of rental units and TBRA) for households at ≤ 60% AMI

	(whichever is greater)) When NHTF funds are greater than $1 billion: • At least 75% for extremely low-income households (≤30% AMI or families with incomes at or below the poverty line (whichever is greater) • Up to 25% for very low-income households (< 50% of AMI)	• 20% of rental units in projects of more than 5 HOME units for households at < 50% AMI
Eligible Activities	• New construction • Acquisition and rehabilitation • Operating costs assistance (up to one third of annual grant)	• New construction • Acquisition • Acquisition and rehabilitation
Limits on Eligible Activities	Minnesota Housing will be using NHTF for rental properties	Minnesota Housing will be using HOME for rental properties
Rents	• Rents plus utilities in units for extremely low-income households are capped at 30% of the income of a household whose income is 30% of area median income (AMI)	• High HOME rents (including utilities) are capped at the lesser of: the Fair Market Rent (FMR) for the area or 30% of the income of a household whose income is 65% of AMI. • Low HOME rents (including utilities) are capped at 30% of the income of a household whose income is 50% of AMI, or, if there is federal or state project-based rental assistance, 30% of the tenant's adjusted gross income
Maximum Per-Unit Subsidy Limits	Limits are set by Minnesota Housing	Interim Policy - CPD-15-003 Section 234-Condominium Housing, elevator-type) Section 234 basic mortgage limits will be used in place of the Section 221(d)(3) limits until further HUD guidance. • Cannot exceed 240 percent of the Section 234 basic

		mortgage limit
Affordability Periods	Rental Projects-New Construction, Rehabilitation, Rehabilitation and Acquisition, • 30 years	Rental Projects-Rehabilitation, Rehabilitation and Acquisition, • 5,10, 15 years depending upon the amount of the HOME investment Rental Projects-New Construction • 20 years
Funds Commitment/ Expenditure Deadlines	24 months/5 years	24 months/5 years

Chapter 2 – Eligible Uses and Eligibility Criteria

2.01 Eligible Projects

HOME and NHTF programs allow for funding of new construction, rehabilitation and acquisition.

A property may contain one or more buildings on a single site. Properties may also be located on more than one site if it meets all of the following:

- The properties are under common ownership
- The properties are under common management and financing
- The housing units are being rehabilitated in each building as part of a single undertaking

A property must also meet all of the following:

- Conform to all applicable zoning ordinances
- Possess all appropriate use permits
- Be used primarily for residential purposes (51 percent or more of the gross floor area of each structure must be residential space)
- Provide permanent housing (e.g., no emergency shelters or other facilities such as nursing homes, convalescent homes, hospitals, residential treatment facilities, correctional facilities, halfway houses, housing for students, or dormitories (including farmworker dormitories).

2.02 Ineligible Projects

- A property under the Emergency Low-Income Housing Preservation (ELIHPRA) Act of 1987
- A property under the Low-Income Housing Preservation and Resident Homeownership (LIHPRA) Act of 1990
- Minnesota Housing-financed projects actively participating in its Redefined Equity program
- Public housing property, unless specified otherwise by HUD
- A property owned by a trust
- A property owned by a borrower who previously received funds from Minnesota Housing and who did not maintain compliance with affordability, property standards or otherwise defaulted under its loan
- A property where there are encumbrances, judgments or outstanding liens that are not acceptable to Minnesota Housing

- A property with a history of negative cash flow that will not be corrected during the acquisition and rehabilitation of the property
- **NHTF:** Prohibits the use of NHTF funds in conjunction with property taken by eminent domain unless eminent domain is employed only for a public use.
- **HOME:** A property previously funded under the HOME program (by Minnesota Housing or any other Participating Jurisdiction) that is still within its Effective Period unless a waiver has been granted by Minnesota Housing and HUD.

NOTE: The terms affordability period, effective period, and compliance period all mean the length of time that the property has to be in compliance with the program requirements.

2.03 Eligible Costs and Activities

Hard Costs

- Eligible hard costs include the actual cost of constructing or rehabilitating housing, including the activities in 24 CFR 93.201(a) for NHTF and 24 CFR 92.206(a) for HOME. Minnesota Housing can help determine what types of costs can be included in a specific project.
- Permanent improvements that bring the property into compliance with applicable state and local codes, zoning ordinances and Lead Safe Housing as stated in HOME regulations under 92.251 and NHTF regulations under 93.301, Minnesota Housing Rental Housing Design/Construction Standards, and Uniform Physical Condition Standards (UPCS) specified in 24 CFR 5.705
- Acquisition costs, for properties to be rehabilitated.

NOTE: HOME and NHTF funds are restricted in their use for public housing units. Applications for public housing units must meet the eligibility requirements of 24 CFR 92.213 for HOME or 24 CFR 93.203 for NHTF.

Soft Costs

- Architectural, engineering or related professional services required to prepare plans, drawings, specifications or work write-ups if they are incurred not more than 24 months prior to the execution of the HOME or NHTF Written Agreement that commits the funds to the property or during the construction phase
- Costs for environmental testing (Phase 1), Lead-Based Paint (LBP) assessment, radon, Asbestos-Containing Materials (ACM) assessment
- Developer fees up to 5 percent of the loan
- Finance-related costs
- Affirmative marketing and fair housing information to prospective tenants or owners of an assisted project

- Temporary relocation costs
- Other soft costs eligible under 24 CFR Part 92 for HOME, and 24 CFR Part 93 for NHTF and are approved by Minnesota Housing in advance of incurring the soft costs

Eligible Operating Costs (NHTF)
Minnesota Housing will make available operating subsidy in the form of a grant to provide operating reserves to eligible projects.

Owners that accept operating subsidy as a component of the funding for their project will be required to enter into a Written Agreement as well as an Operating Subsidy Written Agreement with Minnesota Housing. These documents will identify the obligations of the owner in regard to holding and drawing the reserve funds.

Ongoing monitoring of the reserves will occur as part of the asset management oversight and will be integrated into the underwriting of the project. On an annual basis, reserve amounts may be reconciled with the amount originally committed and projected with actual costs incurred. Adjustments to the reserves would be made as directed by HUD. HUD guidance on this specific requirement is still pending. Minnesota Housing reserves the right to modify any portion of this guide to respond to federal guidance.

2.04 Ineligible Costs and Activities

Additional detail for ineligible activities and fees can be found under 24 CFR Part 92.214 for HOME and 93.204 for NHTF. Owners are encouraged to review this section of the regulation.

NOTE: Ineligible improvements and expenses may be completed at the expense of the owner.

Ineligible Improvements and Expenses

- Recreational or luxury improvements
- Installation of fireplaces or wood burning stoves
- Materials purchased prior to loan closing
- Acquisition that is not in conjunction with rehabilitation of the project
- Improvements that started prior to loan closing
- Equipment and furnishings not considered part of the real estate
- Materials, fixtures or landscaping of a type or quality exceeding those customarily used in similar neighborhood properties
- Improvements not included in the scope of work and the loan amount

Ineligible Soft Costs

Ineligible soft costs include, but are not limited to, the following:

- (HOME) Operating or replacement reserves
- (HOME and NHTF)
    - Application fees
    - Management agent fees
    - Monitoring fees
    - Displacement of tenants
    - Other soft costs incurred prior to loan closing that have not been approved by Minnesota Housing

2.05 Eligible Owners, Sponsors, Developers and Capacity

Eligible Entities for HOME and NHTF must be either:

- A for-profit entity
- A 501(C)(3) non-profit entity,
- A government unit (excluding the federal government)
- A religious organization

NOTE: For a project funded with HOME to be eligible to receive CHDO set aside funds, the owner must be certified by Minnesota Housing as a CHDO.

The owner must provide evidence of a qualifying interest in the property. Such interest must be recorded and appear in the county records. The minimum qualifying interest is 100 percent fee simple interest that may also be subject to a mortgage.

Owner and Development Team Debarment Review

Minnesota Housing will confirm that no members of the project team, including the owner, are debarred or excluded from receiving federal assistance prior to selection or entering into a Written Agreement or closing the loan.

- If the owner(s) are listed on HUD's Limited Denial of Participation (LDP) list or they are in the System for Award Management (SAM), they will not be eligible to receive HOME or NHTF funds.
- If anyone on the owner's development team is listed on either HUD's LDP or the SAM debarment list, they must be replaced by someone who does not appear on HUD's debarment lists.

Contractor Debarment

Before issuing a contract to a general contractor, the owner must verify with Minnesota Housing that the general contractor is not debarred or excluded from working on federally-assisted projects.

- If the general contractor is listed on HUD's LDP list or in SAM, they are not eligible to work on the project and will have to be replaced by another contractor who does not appear on HUD's debarment lists.
- It is the general contractor's responsibility to provide documentation to Minnesota Housing that verifies all subcontractors working on the project are not on the LDP list or in the SAM.

Developer Capacity
Developer's capacity, including but not limited to prior experience and financial capabilities, will be assessed prior to selection for funding.

Community Housing Development Organization (CHDO) Capacity (HOME program)

- To receive the HOME CHDO set-aside funds, the developer must complete and submit a CHDO Qualification form and supporting documentation to Minnesota Housing for review and approval.
- CHDO certification must be completed for every project.
- If CHDO set-aside funds are awarded to a project, the CHDO must re-certify every year throughout the term of affordability.
- CHDO set-aside funds must be expended within 5 years from when Minnesota Housing receives its formula allocation
- If a project is receiving CHDO set-aside funding, the CHDO can only be replaced as the general partner for just cause, and the CHDO must be replaced with another certified CHDO.
- A nonprofit must have paid staff whose experience qualifies them to undertake CHDO set-aside activities.

2.06 Design and Property Standards

HOME and NHTF Property Standards

- Properties served with HOME and NHTF funds must comply with all applicable state and local codes, standards and ordinances by project completion. In cases where standards differ, the most restrictive standard will apply. In the absence of a State or local building code, the International Residential Code or International Building Code of the International Code Council will apply.
- Properties must meet local housing habitability or quality standards throughout the effective period. If no such standards exist, HUD's Uniform Physical Conditions Standards (UPCS), as set forth in 24 CFR 5.705, will apply.
- It is the owner's responsibility to determine if there is a local housing habitability code required for their property and to provide to Minnesota Housing with either a copy of the code or an internet URL to the code.

Minnesota Housing Rental Housing Design/Construction Standards

- All projects funded through the HOME and NHTF programs must follow Minnesota Housing's Rental Housing Design/Construction Standards. These guidelines are available on Minnesota Housing's website: Rental Housing Design/Construction Standards.
- All projects with 26 or more units are required to have the useful remaining life of the major systems determined. Major systems include: structural support; roofing; cladding and weatherproofing (e.g., windows, doors, siding, gutters); plumbing; electrical; and heating, ventilation, and air conditioning.
- If the useful remaining life of one or more major system(s) is less than the applicable effective period, the system(s) must be either included in the scope of work or a replacement reserve must be established and monthly deposits made to the reserve account to adequately repair or replace the systems as needed.

2.07 Environmental Reviews

HOME and NHTF both require an environmental review prior to execution of the Written Agreement.

HOME Program

The environmental review requirements for HOME are found under 24 CFR Part 92.352. This section's regulations align with the environmental review requirements found under 24 CFR Part 58. After the initiation of negotiations, no choice limiting actions can be taken until the environmental review has been completed. It is important for developers to consult with the underwriter to review the noted regulations to ensure the relevant protocols are followed. Written Agreements will not be entered into until an environmental review is completed.

NHTF Program

The environmental review requirements for NHTF are found under 24 CFR Part 93.301(f). After the initiation of negotiations, no choice limiting actions can be taken until the environmental review has been completed. It is important for developers to consult with the underwriter to review the noted regulations to ensure the relevant protocols are followed. Written Agreements will not be entered into until an environmental review is completed.

2.08 Lead Hazard Evaluation and Reduction

All projects funded through the HOME or the NHTF program must follow HUD 24 CFR 35 subparts A, B, J, K, M and R, Minnesota Housing's Rental Housing Design/Construction Standards and Minnesota Housing's Lead-Based Paint policy. Owners are required to follow disclosure requirements for Lead-Based Paint (LBP), including:

- Complete Minnesota Housing's Lead-Based Paint Pre-Construction Certification form and submit the original to Minnesota Housing in conjunction with signing the HOME Form 1 or NHTF Form 1

- Provide the EPA-approved lead hazard pamphlet "Protect Your Family from Lead in Your Home" to all tenant households in a property built prior to 1978. The pamphlet must be given upon execution of the HOME and NHTF application forms titled (HOME Form 1 or NHTF Form 1) for existing tenants and for new tenants at move-in
- Distribute to all tenants residing at the property during rehabilitation, the "Renovate Right: Important Lead Hazard Information for Families, Child Care Providers, and Schools" pamphlet. This must be distributed no less than seven days and no more than 60 days prior to commencement of rehabilitation.
- Retain on file a Lead-Based Paint Acknowledgment of Disclosure form signed by the tenant. The signed Lead-Based Paint Acknowledgement of Disclosure must be retained for three years from the beginning of the leasing period.
- Post an assessment or notice of lead-based paint hazards present, whether determined by a risk assessment or presumption of lead. The owner must post the notice in a conspicuous location or deliver a copy of the assessment to each household within 15 days.

2.09 Obtaining Bids

All projects must be awarded to a single general contractor except if the project includes asbestos work. If asbestos work is included, it is acceptable to have a general contractor for the asbestos work and a general contractor for the remaining scope of work. The selected single prime general contractor will be responsible for their scope of work.

The contractor selection process can be through competitive or negotiated bids. If the bid for a general contractor is negotiated, all subcontractors must be competitively solicited. See Section 2.05 for important information on eligible contractors and subcontractors and Minnesota Housing's Contractor Guide for more information on soliciting bids.

2.10 Funds for Final Draw

Minnesota Housing will withhold a minimum of $20,000 or 1 percent of the HOME or NHTF loan proceeds, whichever is greater, until the final draw, in addition to any construction retainage, pending satisfactory evidence that all HOME or NHTF program and compliance responsibilities have been met and that all associated documentation needed for the project closeout is complete.

2.11 Construction Process Monitoring

The owner's contract with the architect must include the executed Section 3 Clause, which requires the architect to provide regular construction administration and site observations pursuant to Minnesota Housing's Architect's Guide. The general contractor must comply with Minnesota Housing's Contractor's Guide.

2.12 Construction Draws

Minnesota Housing reviews and approves all monthly draws for HOME and NHTF prior to disbursement of any funds. Minnesota Housing cannot approve a draw or disburse HOME or NHTF funds if a property is out of compliance with program obligations during the construction period. This may include, but is not limited to, failure to provide labor information and reports, Uniform Relocation reports and Section 3 documentation.

Draws may be withheld until compliance with program obligations, loan terms and the Written Agreement are met, and in cases where compliance cannot be achieved, Minnesota Housing may pursue all available remedies under the loan documents.

2.13 Change Orders

All change orders and other contract modifications will be in accordance with Minnesota Housing's Architect's Guide and Contractor's Guide.

2.14 Inspections - Initial and Construction

- All projects funded through HOME and NHTF must have a scope of work and bid specifications prepared by an architect licensed to practice in Minnesota. Initial property inspections performed by the project team must be in accordance with Minnesota Housing's Rental Housing Design/Construction Standards.
- In addition, both programs require an initial property inspection to identify Uniform Physical Condition Standards (UPCS) deficiencies. This inspection is completed by Minnesota Housing staff or by an entity or person contracted by Minnesota Housing.
- Findings of the initial inspection deemed an emergency will be required to be remedied per UPCS protocol. The remaining findings can either be integrated into the scope of work or into the property's routine maintenance. Minnesota Housing and the project team will work together to determine which findings can be worked into the scope of work and which can integrated into routine maintenance schedules.
- Improvements that are identified as routine maintenance may, at Minnesota Housing's discretion, be included in the scope of work or completed separately by the owner. If the owner chooses to complete the maintenance work separate from the project's scope of work, the maintenance must be completed prior to the final project closeout inspection and must meet all applicable Minnesota Housing Rental Housing Design/Construction Standards.
- Minnesota Housing will attend the draw meetings and perform property inspections during construction.

2.15 Construction Completion

HOME

HOME funded projects must be completed within four years of latest signature date of the HOME Written Agreement [§92.205(e)(2)].

HOME-assisted rental units must be occupied by income-eligible households within 18 months of project completion; for units that remain vacant six months following completion, an enhanced marketing plan and report will be required to be submitted to HUD [§92.252].

NHTF

The project completion date must ensure timely occupancy of NHTF units. Project completion for rehabilitation projects funded with HOME or NHTF is defined as:

- The time when all necessary title transfer requirements and construction work have been performed
- The project complies with the requirements of the program regulations
- The final drawdown of funds have been disbursed for the project
- The project completion information has been entered into HUD's Integrated Disbursement and Information System

NOTE: When a new construction property is funded under HOME or NHTF project completion occurs when construction is completed and occupancy occurs. Ref: HOME- 24 CFR Part 92.251 and 92.502(d), and NHTF-24 CFR Part 93.2, 93.301, and 93.402(d).

Chapter 3 – Underwriting Considerations

All projects funded through the HOME and NHTF programs must follow Minnesota Housing's Multifamily Underwriting Standards. These standards include requirements for debt coverage ratio and loan to value.

Minnesota Housing will provide technical assistance to facilitate commitment of HOME and NHTF funds and will assist owners with understanding their compliance obligations.

3.01 Underwriting for New Construction

Projects undergoing new construction have unique differences that include, but are not limited to, site and neighborhood standards, occupancy and marketing approaches, operating costs, energy efficiency and fair housing and accessibility. These requirements are outlined throughout this guide, the Multifamily Underwriting Standards, the Architect's Guide and the Minnesota Housing Rental Housing Design/Construction Standards.

3.02 Underwriting for Rehabilitation

Projects undergoing acquisition and rehabilitation have unique differences that include, but are not limited to, market demand, occupancy and marketing approaches, operating costs, energy efficiency, relocation and fair housing and accessibility. These requirements are outlined throughout this Multifamily Underwriting Standards, the Architect's Guide, and the Minnesota Housing Rental Housing Design/Construction Standards.

3.03 Written Agreement - Commitment of Funds to a Project

Written Agreements are required for:

- HOME Capital Funds
- HOME CHDO Set-Aside Funds
- NHTF Capital Funds
- NHTF Operating Subsidy

The owner and Minnesota Housing must sign and date the applicable Written Agreement in order to receive federal funds. For capital funds, the Written Agreement must be signed prior to construction activities. The Written Agreement may be signed in advance of, or concurrent with, loan closing as long as all HOME and NHTF programs and Written Agreement requirements have been satisfied.

Each Written Agreement outlines the minimum responsibilities and expectations that must be met prior to signing the Written Agreement and throughout the term of the affordability period. Minnesota Housing reserves the right to include additional requirements.

All projects using these federal sources for capital expenses must demonstrate the ability to begin construction within 12 months from the date of the signed Written Agreement.

3.04 Loan Terms

HOME and NHTF funding can be provided in the form of a construction loan or an end loan.

- Zero percent interest rate
- Payment is due in full the earlier of 30 years from the date of the signed mortgage or the occurrence of one or more of the following:
    - Failure of the owner to accept a renewal or extension of federal rental assistance
    - Failure of the federal government to offer to renew or extend federal rental assistance due to actions of the owner or condition of the property
    - An event of default occurrence described in the mortgage and related loan documents
- The minimum amount of HOME and NHTF program assistance is $1,000 per unit or $100,000 per project
- The interest rate may be adjusted in order to allow these funds to be utilized with other sources of funding, such as Low Income Housing Tax Credits
- The loan term may be adjusted based on requirements and conditions of other federal assistance or funding sources
- Loans will generally be full recourse; however, Minnesota Housing may allow non-recourse debt to single asset entities
- Principal and interest, if any, shall generally be due and payable at the end of the loan term, which is typically 30 years, however Minnesota Housing may at its sole discretion require provisions necessitating 20% of cash flow in excess of $50,000 be repaid annually

3.05 Reserves

If the useful remaining life of one or more major system(s) is less than the applicable effective period, the system(s) must be either included in the scope of work or a replacement reserve must be established and monthly deposits to the reserve account must be made to adequately repair or replace the systems as needed.

NHTF Operating Subsidy Reserves

- Operating subsidy reserves may be funded for the amount estimated to be necessary for 15 years from the start of the affordability period.
- Minnesota Housing will determine funding levels and underwrite for these reserves based on the needs of the project and eligible uses.

- The reserve will be held by Minnesota Housing. The owner must annually submit an audit along with the pay request for the eligible expenses incurred during the previous year.

3.06 Limit on Governmental Assistance-Subsidy Layering Review

As part of the underwriting process, Minnesota Housing is required to conduct a subsidy layering review to ensure that the sources and uses of funds (including Operating Subsidy for NHTF) for the project are reasonable and only the necessary amount of program funds are invested in the housing project.

Minnesota Housing will refer to its Underwriting Standards as a guide for conducting the subsidy layering review analysis of reasonable project costs.

For the purposes of the subsidy layering review, governmental assistance includes any loan, grant (including a Community Development Block Grant), guarantee, insurance, payment, rebate, subsidy, credit tax benefit, NHTF operating subsidy, or any other form of direct or indirect assistance from the federal, state or local government for use in, or in connection with, a specific housing project.

To complete the analysis, Minnesota Housing will review all sources and uses of funds. Minnesota Housing will confirm that all costs are reasonable. The reasonableness of the project's costs is determined by reviewing the project's quality, construction costs, architectural and engineering fees and consulting fees.

Minnesota Housing's staff architect and underwriter review the cost estimates, costs of comparable projects in the same geographic area, qualifications of the cost estimates for various budget line items, comparable costs published by recognized industry cost index services, and the comparable bids obtained.

The reasonableness of the rate of return on the applicant's equity investment is assessed through a review of the pro forma during the underwriting process.

3.07 Market Analysis

The programs require an assessment of market demand. The purpose of the requirement is to ensure that there will be adequate market demand for a project before committing federal funds. To comply with the regulatory obligations, Minnesota Housing requires a developer to follow the protocols outlined in the RFP Guide and Underwriting Standards. Because HUD has indicated that additional guidance will be provided in the future, this requirement may be updated to reflect changes.

An assessment, at minimum, of the current market demand in the neighborhood that the project will be located in, the experience of the owner/developer, the financial capacity of the owner/developer, and firm written financial commitments for the project.

If a project is also receiving tax credits, the market study will be used to assess the market.

3.08 Site and Neighborhood Standards

Minnesota Housing will administer HOME and NHTF in a manner that provides housing that is suitable from the standpoint of facilitating and furthering full compliance Fair Housing laws and regulations and promotes greater choice of housing opportunities.

In carrying out the site and neighborhood requirements with respect to new construction of rental housing, Minnesota Housing will review the information to ensure that the proposed site for new construction meets the requirements in 24 CFR 983.57(e)(2).

Project records must illustrate that a site and neighborhood standards review was conducted for each project that included new construction of rental housing assisted to determine that the site meets the requirements of 24 CFR Part 92.202 for HOME and 24 CFR Part 93.150 for NHTF.

As with the HOME program, HUD is not applying specific site and neighborhood standards to rehabilitation projects under NHTF; however, if project-based vouchers are used in an NHTF rehabilitation unit, the site and neighborhood standards for project-based vouchers will apply.

In addition, the requirements of 24 CFR Part 8 (which implements section 504 of the Rehabilitation Act of 1973) apply to the NHTF and specifically address the site selection with respect to accessibility for persons with disabilities.

Both HOME and NHTF require that the property comply with 24 CFR Part 983.57 (e)(2)and (e)(3):

> (e) New construction site and neighborhood standards. A site for newly constructed housing must meet the following site and neighborhood standards:
>
> (2) The site must not be located in an area of minority concentration, except as permitted under paragraph (e)(3) of this section, and must not be located in a racially mixed area if the project will cause a significant increase in the proportion of minority to non-minority residents in the area.
>
> (3) A project may be located in an area of minority concentration only if:
>
>> (i) Sufficient, comparable opportunities exist for housing for minority families in the income range to be served by the proposed project outside areas of minority concentration (see paragraph (e)(3)(iii), (iv), and (v) of this section for further guidance on this criterion); or

(ii) The project is necessary to meet overriding housing needs that cannot be met in that housing market area (see paragraph (e) (3)(vi)) of this section for further guidance on this criterion).

(iii) As used in paragraph (e)(3)(i) of this section, "sufficient" does not require that in every locality there be an equal number of assisted units within and outside of areas of minority concentration. Rather, application of this standard should produce a reasonable distribution of assisted units each year that, over a period of several years, will approach an appropriate balance of housing choices within and outside areas of minority concentration. An appropriate balance in any jurisdiction must be determined in light of local conditions affecting the range of housing choices available for low-income minority families and in relation to the racial mix of the locality's population.

(iv) Units may be considered "comparable opportunities," as used in paragraph (e)(3)(i) of this section, if they have the same household type (elderly, disabled, family, large family) and tenure type (owner/renter); require approximately the same tenant contribution towards rent; serve the same income group; are located in the same housing market; and are in standard condition.

(v) Application of this sufficient, comparable opportunities standard involves assessing the overall impact of HUD-assisted housing on the availability of housing choices for low-income minority families in and outside areas of minority concentration, and must take into account the extent to which the following factors are present, along with other factors relevant to housing choice:

(A) A significant number of assisted housing units are available outside areas of minority concentration.

(B) There is significant integration of assisted housing projects constructed or rehabilitated in the past 10 years, relative to the racial mix of the eligible population.

(C) There are racially integrated neighborhoods in the locality.

(D) Programs are operated by the locality to assist minority families that wish to find housing outside areas of minority concentration.

(E) Minority families have benefited from local activities (e.g., acquisition and write-down of sites, tax relief programs for homeowners, acquisitions of units for use as assisted housing units) undertaken to expand choice for minority families outside of areas of minority concentration.

(F) A significant proportion of minority households has been successful in finding units in non-minority areas under the tenant-based assistance programs.

(G) Comparable housing opportunities have been made available outside areas of minority concentration through other programs.

(vi) Application of the "overriding housing needs" criterion, for example, permits approval of sites that are an integral part of an overall local strategy for the preservation or restoration of the immediate neighborhood and of sites in a neighborhood experiencing significant private investment that is demonstrably improving the economic character of the area (a "revitalizing area"). An "overriding housing need," however, may not serve as the basis for determining that a site is acceptable, if the only reason the need cannot otherwise be feasibly met is that discrimination on the basis of race, color, religion, sex, national origin, age, familial status, or disability renders sites outside areas of minority concentration unavailable or if the use of this standard in recent years has had the effect of circumventing the obligation to provide housing choice.

3.09 Unit Comparability Analysis and Cost Allocation

The owner is required to perform a unit comparability analysis on all units in the project. Minnesota Housing will use this information and the eligible project costs to determine the maximum amount of HOME or NHTF funds that the project may receive and the required number of federally assisted units.

Minnesota Housing will work with the owner to determine if the federally assisted units will be designated as fixed or floating. The federal funding must only pay the share of project eligible costs proportionate to the number of federally assisted units. Assisted units must be evenly distributed among the different unit types.

The owner must perform the analysis using the Unit Comparability Instructions Sheet. This must be done as soon as possible after completing the HOME or NHTF Application Certification form. Minnesota Housing will review and approve the analysis before signing a Written Agreement.

After approval of the Borrower's Unit Comparability Analysis, Minnesota Housing will determine the estimated number of federally assisted units as required under the HOME or the NHTF programs. The final number and type of units to be assisted will be determined prior to signing the Written Agreement. If there are any changes to loan amount or eligible costs during construction, the number of federally assisted units and maximum funding will be recalculated.

This recalculation may result in revising the number of federally assisted units and/or the affordability period.

Fixed Units

- Comparable Units:
    - When all units in the project (separated by the number of bedrooms), are satisfactorily demonstrated to be comparable (in terms of area and amenities), the owner and Minnesota Housing will determine whether or not the federally assisted units should be fixed or floating.
    - When federally assisted units are fixed, the units remain the same during the effective period. Units designated as fixed **must** be occupied by tenants that meet the income and rent restrictions of the specified program for the duration of the Effective Period.
- Non-Comparable Units:
    - When the units are determined to be non-comparable, the federally assisted units must be fixed.
    - The eligible costs must be pro-rated such that funding is only used for the federally assisted units plus a share of the common area costs.

Floating Units

- Comparable Units:
    - To designate the federally assisted units as floating they must be comparable to the non- assisted units.
    - When federally assisted units are floating, the units may change during the Effective Period so long as both apply:
        - The total number of federally assisted units in the project remains the same, and
        - Any newly designated units are comparable and number of bedrooms as originally designated in the Written Agreement and applicable exhibits to the Written Agreement

If the project is receiving HOME funds from another participating jurisdiction, the owner will annually provide documentation that the other participating jurisdiction's HOME-assisted units are separate from Minnesota Housing's HOME-assisted units.

If the unit receives federal or state project-based rental subsidy, and the tenant pays as a contribution toward rent not more than 30 percent of the tenant's adjusted income, the maximum rent is the rent allowable under the federal or state project-based rental subsidy program.

In HOME properties, a unit set at a low HOME rent (including a subsidized unit set at the rent allowable under the project-based rental subsidy) must be occupied by a tenant at or below 50 percent AMI for the term of the affordability period. If the units are fixed and a tenant's income in a low HOME unit increases above 50% AMI, the unit no longer qualifies as a low HOME unit. The allowance to use Project Based Assisted (PBA) rents no longer apply. If that unit were going to remain a HOME unit, the rent needs to be changed to the high HOME rent for that unit. The unit could still receive PBA, after the rent was changed to the high HOME rent.

If the units are floating and a tenant's income in a low HOME unit increases above 50% AMI, the unit would be in temporary non-compliance and the owner could float the HOME unit to another compliant unit.

3.10 Secured Financing

Projects cannot receive funds, or have them committed to the project, until due diligence is provided to show all financing for the project has been secured.

3.11 Capital Needs and Major Systems

Minnesota Housing must underwrite all projects to ensure that each project is financially sustainable over its affordability period. Capital needs will be evaluated during underwriting to plan for major systems repairs. The scope of rehabilitation work and replacement reserves deposits must be sufficient to ensure the useful life of essential building components throughout the affordability period [HOME §92.251(b)(ii) and (viii)] [NHTF §93.301].

After construction has been completed and as part of the project closeout, the owner must provide an updated capital needs assessment that will document the properties needs for the term of the affordability period. Minnesota Housing's architect reviews and approves the assessment before the project starts its affordability period. Handling of reserves during the affordability period can be found in Chapter 6.

3.12 Minority and Women-Owned Businesses

It is the policy of Minnesota Housing that Minority and Women-owned Business Enterprises (MBEs/WBEs) have equal access to business opportunities resulting from Minnesota Housing financed projects, and that the workforces on the projects that Minnesota Housing finances are demographically representative of the area in where the projects are located. When reviewing bid information, Minnesota Housing will examine:

- The owner's and general contractor's certification to determine compliance with laws prohibiting discrimination in employment and that they hire affirmatively
- The extent to which bids from MBEs/WBEs are solicited; such solicitations and the results must be documented
- The demographic make-up of the contractor and subcontractor's workforces

State and federal regulations direct that all affirmative steps be taken to ensure that MBEs/WBEs are used when possible. Outreach to minorities and women must be conducted and documented to Minnesota Housing for contracts in excess of $25,000.

3.13 Section 3 Requirements

Properties that have work completed using federal funds are subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968 (12 USC 1701u). These requirements are described in 24 CFR Part 135. Additionally, Minnesota Housing guides describing Section 3 and Minority Business Enterprise/Women Business Enterprises (MBE/WBE) general compliance are available to assist owners/developers. Minnesota Housing requires certain documentation and tracking information be provided to verify compliance with this obligation.

To demonstrate compliance with Minnesota Housing's affirmative contract compliance requirements, owners must identify jobs bid by minority-owned, women-owned, and small or disadvantaged businesses using the Minnesota Housing Contract Compliance Activity Report. This Minnesota Housing report is a data collection tool to be included in bidding documents. All contractors and sub-contractors providing bids must complete this form.

Minnesota Housing reserves the right to insist work is re-bid affirmatively if the Agency determines there is insufficient solicitation from minority and female contractors. See Minnesota Housing guides for Section 3 and Minority Business Enterprise/Women Business Enterprises (MBE/WBE) on the Agency website for hiring goals for specific geographic areas.

It is the owner's responsibility to ensure that bid packages include all applicable Section 3 and MBE/WBE information and forms. It is recommended that the owner deem any bid submitted without the required information as incomplete and not valid. The Section 3 and MBE/WBE guides provide all of the goals that the owner must meet when working on a project that is funded with HOME or NHTF funds. Contact your assigned underwriter with questions.

Construction and professional service contracts must include the contractor's signed Section 3 Clause along with all applicable labor standards documents. The owner/developer is responsible to ensure Minnesota Housing reviews bid packages before they are released.

3.14 Federal Labor Standards for HOME Funded Projects

Owners agree to abide by and ensure compliance with the federal labor standards laws and regulatory requirements. The three laws that apply to HOME funded projects are:

- Davis-Bacon Act: Requires workers receive not less than the prevailing wages being paid for similar work in the locality. Prevailing wages are computed by the U.S. Department of Labor (DOL) and are issued in the form of federal wage decisions for each classification of work

- Copeland "Anti-kickback" Act: Workers must be paid at least once a week without any deductions or rebates except permissible deductions, which include taxes, deductions the worker authorized and those required by court processes. The act also requires that contractors maintain payroll records and submit weekly payrolls and statements of compliance to the contracting agency
- Contract Work Hours and Safety Standards Act: Workers must receive overtime compensation at a rate 1 ½ times their regular wage after they have worked 40 hours in one week

Please refer to the U. S. Department of Housing and Urban Development Office of Labor Relations for additional information about the laws outlined above.

3.15 Davis Bacon Act for HOME Funded Projects

NOTE: This section applies to the HOME program. The NHTF statute authorizing the program did not make the labor standards of Davis-Bacon and Related Acts applicable to NHTF.

Each HOME-assisted project that contains 12 or more HOME-assisted units must pay all laborers and mechanics employed in the project an hourly rate not less than the minimum rate specified in the applicable Wage Decision issued by the DOL for each particular project. When combining HOME assistance with other federal sources, follow the Davis-Bacon standards of the program that applies the standards to the smallest number of units.

Owners must require all of the following:

- All contractors pay employees weekly
- All contractors must, on a weekly basis, enter their certified weekly payroll reports with all applicable documentation into HUD's LCPtracker (also see section 6.14)

The completion and submission of all documentation for conformance with federal labor standards requirements is a condition for the release of HOME funds.

Minnesota Housing will conduct periodic interviews with persons who are working on site to ensure compliance with Davis Bacon and Related Acts. Errors or discrepancies in labor rates and payrolls will result in possible restitution to the person affected.

3.16 Wage Determination-HOME Funded Projects

Each project with 12 or more HOME-assisted units must obtain a wage decision from the DOL website. The owner's architect is responsible for obtaining the wage decision and providing a copy to the Minnesota Housing Labor Standards Officer (LSO) for approval.

The owner must have a formal construction contract with the selected general contractor, and an owner who is also the licensed general contractor must have formal construction contracts with all individual sub-contractors. All construction contracts must contain Davis-Bacon language binding the contractor to Davis-Bacon requirements (HUD 4010).

The general contractor must ensure that all contracts with subcontractors contain all applicable labor standards and Section 3 documentation.

A Minnesota Housing-approved wage decision must be included in all bid specifications, bid documents and contracts. Failure to include a wage decision or the use of a wrong wage decision in bid specifications, bid documents and contracts will not relieve the contractor or owner from potential enforcement action and may make costs ineligible for payment with HOME funds.

Wage determinations may be modified by the DOL at any time, but most changes occur weekly on Fridays. The contract award date or the date on which a wage decision is considered locked is as follows:

- For competitively bid contracts, the wage decision is considered locked-in when the bids are opened, provided the contract is awarded within 90 days of the bid opening.
- The project that negotiates the general contractor's contract will lock-in the wage decision when the contract is signed. **NOTE:** If the general contractor's contract is negotiated, all of the subcontractor's work must be competitively bid.
- For projects that are FHA-insured, the wage decision is locked in on the date that the mortgage is initially endorsed by HUD, provided that construction starts within 90 days.

NOTE: Please work closely with the HOME Program Manager on determining when your project's wage decision is locked in.

All of the following documents must be included in bid specifications and bid documents:

- Applicable wage decision
- HUD Form 4010: Federal Labor Standards Provisions
- Minnesota Housing Equal Employment Opportunity Policy Statement Form
- Section 3 Guide and all applicable attachments

Minnesota Housing must be given a copy of the bid specifications and bid documents before they are released for bid. The HOME Program Manager will sign off on the bid package before it is released for bid with the understanding that the wage decision may have to be updated before the contract is signed.

The general contractors and subcontractor contracts must include all of the following:

- HUD 4010

- Contractor completed and signed Minnesota Housing Equal Employment Opportunity Policy Statement Form
- Contractor's signed Section 3 clause

NOTE: Inclusion by reference is not acceptable.

3.17 Notices for Job Site-HOME Funded Projects

Minnesota Housing will make one or more site visits to determine that the applicable notices are posted at the site related to wage and labor requirements.

Posting at the work site must include a copy of:

- Applicable wage decision
- HUD 4010
- Employees Rights under the Davis Bacon Act Notice Poster
- Any additional classification information

The documents must be posted at the work site in a location that employees can easily access and must be protected from the weather for the duration of the contract work.

3.18 Required Submittals to Minnesota Housing-HOME Funded Projects

Before the loan closing, the general contractor must submit a complete list of all contractors and subcontractors to be employed. This list must be updated as additional subcontractors are determined.

The general contractor must, at a minimum, report weekly in LCPtracker the following records:

- A list showing all contractors and subcontractors working on the project during the work week documentation showing that the subcontractors are not on HUD's LDP list or listed in the SAM system. **NOTE:** This documentation only needs to be provided once per project and must be submitted before the subcontractor starts working on the project.
- A contractor and subcontractor profile for every contractor working on the project
- The certified weekly payroll report for each contractor and subcontractor that includes employees working at any time during the week
- Proof of employee approval of all other deductions

These submittals must be made no later than seven days following the reporting period covered. **Incomplete or incorrect payroll reports will delay payment.**

3.19 Subordination to Declaration of Covenants, Conditions and Restrictions

Minnesota Housing requires all lenders in a senior position to agree to subordinate their mortgage to the HOME or NHTF Declaration of Covenants, Conditions and Restrictions. The subordination to the HOME or NHTF Declaration does not affect lien priority; rather, it ensures that applicable rent, income and occupancy requirements run with the property for the duration of the effective period regardless of any change of ownership, full payment of the loan or event of default.

Borrowers should begin talking to senior lien holders as soon as possible to determine if they are willing to execute the subordination. If a lender is not able to meet this requirement, Minnesota Housing may elect to not fund the loan.

3.20 Monitoring and Reporting Requirements

During Underwriting

Both programs require regular reporting throughout the underwriting period for certain activities. These include:

- Uniform Relocation
- Tenant vacancy status and eligibility
- Section 3
- MBE/WBE

During Construction

Both programs require regular reporting throughout the construction period for certain activities. These include:

- Uniform Relocation
- Tenant vacancy status and eligibility
- Section 3
- MBE/WBE

The HOME program requires reporting for Labor Standards (Davis Bacon) during the period of construction. These requirements are described earlier in this chapter.

During the Affordability Period

- Both HOME and NHTF require regular reporting during the affordability period.
- HOME affordability periods are based on specifics details of the project and can range from 5 to 20 years.
- NHTF affordability period is 30 years for all of the projects that receive NHTF funds.

- Annual reporting must include:
    - Tenant eligibility and demographic data
    - Annual owner certifications
    - Financial records to conduct financial oversight
- Financial: Minnesota Housing's Asset Management staff will annually review the Capital Needs Assessment (CNA)/Physical Needs Assessment (PNA) for the following:
    - Balance of replacement reserve at the beginning of the fiscal year
    - Capital expenditures during the fiscal year
    - Adjust above referenced PNA as needed
    - Ensure reserve balance remains positive through affordability date

During the affordability period, Minnesota Housing must annually examine the financial condition of the project and must take action where feasible to correct problems that threaten a project's financial viability [HOME-§92.504(d)(2)] [NHTF-§93.404].

3.21 Affordability Period

The affordability period marks the time during which the assisted units must remain in compliance with specific program guidelines.

Minnesota Housing reserves the right to require a longer affordability period as a condition of funding. The affordability period begins within 15 days of final disbursement of all the project funds to the owner. The final disbursement occurs after project completion and submission of all required documentation. After the final disbursement is completed, an Effective Period Certificate will be executed and filed in the respective county's records.

HOME Acquisition and Rehabilitation Affordability Periods

- Five year affordability period for loans less than $15,000 per HOME-assisted unit
- Ten year affordability period for loans between $15,000 and $40,000 per HOME-assisted unit
- Fifteen year affordability period for loans over $40,000 per HOME-assisted unit

HOME New Construction Affordability Period

- Twenty year affordability period for all new construction

NHTF Affordability Period Term

- Thirty year affordability period for all loans regardless of amount or number of units

Chapter 4 – Fees

Certain fees and costs are eligible to be charged and paid for using federal funds. Costs for both new construction and rehabilitation, such as:

- Architectural, engineering or related professional services required to prepare plans, drawings, specifications, or work write-ups. The costs may be paid if they were incurred not more than 24 months before the date that funds are committed to the project and the grantee expressly permits funds to be used to pay the costs in the Written Agreement committing the funds
- Costs to process and settle the financing for a project, such as private lender origination fees, credit reports, fees for title evidence, fees for recordation and filing of legal documents, building permits, attorneys' fees, private appraisal fees and fees for an independent cost estimate and builders' or developers' fees
- Costs of a project audit, including certification of costs performed by a certified public accountant, that Minnesota Housing may require with respect to the development of the project
- Costs to provide information services such as affirmative marketing and fair housing information to prospective homeowners and tenants as required by § 93.350
- Payment of impact fees that are charged for all projects within a jurisdiction

Chapter 5 – Applying for Funds

Funds are available through Minnesota Housing's Consolidated Request For Proposals (RFP), dependent on federal appropriations.

All program selections must be approved by Minnesota Housing's board. The projects will also be approved by Minnesota Housing's Clearinghouse Committee prior to commitment of funds (signing of the Written Agreement) and by the Mortgage Credit Committee prior to loan closing.

- The pro forma should include tax benefits and other assumptions used in calculating the project's cash flow.
- The pro forma should represent, at a minimum, the term of the HOME or NHTF Program affordability requirements (ref section 3.21 of this Guide).

If Minnesota Housing determines that the total amount of federal funds and other governmental assistance exceeds the amount necessary to make the project feasible (i.e., costs are unreasonable or the projected rate of return is too high), the Agency will pursue one or more of the following remedies:

- Reduce the amount of federal program funds by reducing the project budget
- Increase the borrower's contribution or non-public funding
- Make other adjustments, such as lowering the rents, increasing the replacement reserves or analyzing expenses
- Deny federal program assistance if the applicant refuses to make reasonable adjustments or refuses to limit the rate of return and/or profit

Chapter 6 – Compliance and Fair Housing

All standards contained in this chapter must be met at project completion and throughout the affordability period. Properties will be monitored for compliance with affordability and property standards for the duration of the affordability period.

The federal HOME program and NHTF program establish specific compliance responsibilities prior to, during and after project completion for the duration of the affordability period and the term of the loan. For information on compliance using HOME or NHTF funds, please refer to applicable regulations for each program as referenced throughout this guide. Minnesota Housing will be updating its HOME and NHTF Compliance Guide in the fall of 2016.

6.01 Financial Reporting and Reserves

HOME

For projects that receive HOME funds, Minnesota Housing may require the owner to establish a Replacement Cost Reserve Account any time prior to repayment of the HOME loan. The Replacement Cost Reserve Account will be held and maintained by either Minnesota Housing or a depository designated by Minnesota Housing.

If, during the HOME affordability period, the owner has a previously established Replacement Cost Reserve Account with a lender other than Minnesota Housing, the owner is required to furnish to Minnesota Housing evidence of the spending activity of the Replacement Cost Reserve Account. Evidence must include, but is not limited to, the current balance, deposits and disbursements made from the account, purpose of the disbursements and any other information as Minnesota Housing may request.

If the borrower has established a Replacement Cost Reserve Account that is not held by a lender, then during the effective period (as defined herein), the borrower shall, within 10 business days, furnish to the lender, as may be requested by Lender from time to time, evidence of the spending activity of the Replacement Cost Reserve Account in a form acceptable to the lender. Evidence shall include, but is not limited to, the current balance, deposits and disbursements made from the account, purpose for which disbursements were made and any other information as the lender may request.

NHTF

Properties with 10 or more NHTF-assisted units will be required to follow the financial oversight obligations of 24 CFR Part 93 and 24 CFR Part 93.404 and as detailed in this guide.

HOME and NHTF Financial Oversight (as applicable)

Requests from reserves will be reviewed and approved annually by Minnesota Housing upon receipt of audited financial statements. Owners must submit annual operating data, audited financial statements and annual updated PNA data for review by the assigned Housing Management Officer. If you have questions regarding financial oversight, contact Earl

Erlendsson, Housing Management Officer, at earl.erlendsson@state.mn.us, or 651.296.0754 or Gayle Rusco, Manager of the Asset Management Division, at gayle.rusco@state.mn.us or 651.296.8093.The following provides a more detailed description of requirements.

PNA/CNA
The owner must submit a post rehab capital expenditure that includes capital projections through the end of the affordability period. Minnesota Housing architects will review the plan using the completed rehabilitation to ensure appropriate useful remaining life and needed expenditures are included. The Asset Management program manager will annually:

- Review the balance of replacement reserve at the beginning of the fiscal year
- Review capital expenditures during the fiscal year
- Adjust the above referenced PNA/CNA as needed
- Ensure reserve balance remains positive through affordability date
- Financial reporting: Use the annual reporting tool called the Federal Reporting tool to submit annual operating data. This information will be used to assist in evaluating the long-term financial viability of the project. It is similar to the Minnesota Housing reporting tool that owners and agents currently use to report first mortgage oversight operating data except for the following:
    - Only one report needs to be submitted 30 days from the project's fiscal year end.
    - The report will include all reserve balances and loan amounts from outside entities (if not held by Minnesota Housing).
    - This report will be in place of an annual budget and will reflect actual annual financial viability.

6.02 Ongoing Property Inspections and Property Standards

Ongoing property inspections are required during the affordability period as noted in 24 CFR Part 92.251 and 24 CFR Parts 93.301 and 93.404. HOME and NHTF allow Minnesota Housing to prepare an inspection schedule, and Minnesota Housing's schedule may be more restrictive than the schedule suggested by HUD.

Follow up on-site inspections must be performed within 12 months of construction completion to ensure that health and safety violations or other serious and significant defects do not exist in the property.

NHTF requires that ongoing property inspections be performed at least once every three years after the initial inspection.

Minnesota Housing's inspections schedule for HOME and NHTF can be found in the program compliance manual.

6.03 Income Eligibility

Extremely low-income families (NHTF) means low-income families whose annual incomes do not exceed 30 percent of the median family income of a geographic area, as determined by HUD, with adjustments for smaller and larger families.

Very low-income renter households (NHTF) means a household whose income is in excess of 30 percent, but not greater than 50 percent of the area median income, with adjustments for smaller and larger families, as determined by HUD.

Very low-income families (NHTF and HOME) means low-income families whose annual incomes are in excess of 30 percent, but not greater than 50 percent of the area median family income of a geographic area, as determined by HUD, with adjustments for smaller and larger families. See 24 CFR 92.2 and 24 CFR 93.2 for a more detailed definition for each program.

Low-income families (HOME) means families whose annual incomes do not exceed 80 percent of the median income for the area as determined by HUD, with adjustments for smaller and larger families. See 24 CFR 92.2.

HOME

At least 90 percent of all HOME-assisted units must be initially occupied by families with annual gross incomes at or below 60 percent of AMI with rents at or below the high HOME rents. In projects containing more than five (5) units, at least 20% of HOME-assisted units must be occupied by households with incomes at or below 50% of AMI with rents at or below the low HOME rents for the affordability period. In some circumstances, more restrictive income requirements may apply, as noted below. Income of tenants must be determined and verified in accordance with the requirements of Minnesota Housing's Multifamily HOME Programs Compliance Manual.

The following chart illustrates the income targeting requirements by the number of HOME-assisted units. **NOTE:** More restrictive requirements may be required.

Number of HOME Units		Income Requirements at Initial Certification	Income Requirements After Initial Certification	Rent Requirements
5 +	Very low-income/ Low HOME Rent	At least 20% of the units must be occupied by very low-income households, at 50% AMI or	At least 20% of the units must be occupied by very low-income households, at 50% AMI or	At least 20% of the units must pay the lower of FMR, 50% rent limit (low HOME Rent), or 30% of the family's adjusted income

		less	lower	
5+	Low-income / High HOME Rent	Up to 10% of the units may be occupied by households up to 80% AMI	The remaining 80% of the units may be occupied by households up to 80% AMI	The remainder of the units may pay the lower of FMR or 65% rent limit (high HOME Rent)

NOTE: You must have at least 10 HOME-assisted units to qualify for one unit with a household at 80% AMI.

NHTF
The income determination provisions provided in this guide are those that HUD uses in its HOME program rule. The breakdown of occupied units and income requirements for NHTF are different and are specific to serving populations that are extremely low-income.

6.04 Rent and Income Limits

HOME and NHTF require annual review and approval of rents for the assisted units. The Compliance Manual describes this process.

HOME Program rent and income limits are published by HUD on an annual basis. Minnesota Housing issues a memo to owners and managers and posts the new rent and income limits on its website when they are released. In the event rent limits decrease for an area, or utility allowances increase, an owner may be required to reduce the rent charged but will not be required to lower rents below those in effect at the time of project commitment.

NHTF Program rent and income limits are published by HUD on an annual basis. Minnesota Housing issues a memo to owners and managers and posts the new rent limits on its website when they are released.

HOME Rents
Every HOME-assisted unit is subject to maximum allowable rents based on bedroom size for the county in which the property is located. These maximum rents are referred to as HOME rents. There are two HOME rents established for properties: high and low HOME rents represent the maximum that owners can charge for rent, including an allowance for tenant-paid utilities. Rent limits and rent increases must be determined and verified in accordance with the requirements of Minnesota Housing's Multifamily HOME Programs Compliance Manual.

Properties Receiving Project-based Rental Assistance HOME:

- Assisted units must be made available for rent to households with incomes at or below 50 percent of AMI at gross rents (contract rent plus tenant paid utilities) that are at or below the low HOME rent limit, as established annually by HUD or,

- If a HOME-assisted unit receives federal project-based rental assistance **and** the unit is occupied by a very low-income (50% AMI) household who pays not more than 30% of adjusted gross income for rent, the maximum rent (tenant contribution plus the project-based rental subsidy) is the rent allowable under the federal project-based rental subsidy program
- Because the rent under the federal rental assistance program will typically be higher than allowable HOME program rents, this will provide the owner the highest possible rent.

- Adjustments to HOME rents: The rent charged for HOME-assisted units must be adjusted to comply with the low HOME rents at a time when/if federal project-based assistance is no longer available.
- Rents also must be adjusted if a household's income at annual recertification exceeds 50% AMI. See Chapter 2, Maintaining the Unit Mix, of Minnesota Housing's Multifamily HOME and NHTF Programs Compliance Manual.

NHTF Rents
For tenants who are extremely low-income (ELI), their rent plus utilities must not exceed the greater of 30 percent of the federal poverty line or 30 percent of the income of a family whose annual income equals 30 percent of AMI for the area, as determined by HUD, with adjustments for the number of bedrooms in the unit. Note that when NHTF funds are less than $1 billion, 100% of NHTF-funded rental units should meet this standard.

When units are approved for tenants who are very-low income (VLI), their rent plus utilities must not exceed 30 percent of the income of a family whose annual income equals 50 percent of AMI for the area, as determined by HUD, with adjustments for the number of bedrooms in the unit.

If the unit receives a federal or state project-based rental subsidy, and the tenant pays as a contribution toward rent not more than 30 percent of the tenant's adjusted income, the maximum rent is the rent allowable under the federal or state project-based rental subsidy program.

- Units funded with NHTF Operating Subsidy cannot have any other subsidy attached to those units. NHTF Operating Subsidy is used to fund operating shortfalls with the tenants paying no more than 30 percent of their income towards rent.
- For NHTF units funded with NHTF Capital (and not covered with NHTF Operating Subsidy), the maximum rent allowable is the rent allowable under the federal or state project-based rental subsidy program.

Group Residential Housing. Properties Receiving Group Residential Housing (GRH) and HOME or GRH and NHTF:

- When using current rent limits and taking into consideration the current GRH Room and Board Rate, the amount of rent being charged for assisted units that are also subsidized with GRH is within applicable rent limits provided that the project is in compliance with 24 CFR 92.214(b)(3) and 24 CFR 93.204(b)(4).
    - Owners are prohibited from charging fees that are not customarily charged in rental housing.
    - Project owners may charge fees for meals, as long as the services are voluntary.
    - That receipt of board is optional for units with GRH in order to remain in compliance with applicable program regulations.

6.05 Lease Terms and Tenant Selection Policies

Leases for HOME and NHTF-assisted units must be for a period of at least one year, unless a shorter term is agreed upon by the owner and tenant.

Per federal regulation, leases must exclude certain provisions (see below for a listing of prohibited lease provisions).

Additionally, owners must adopt written tenant selection policies and criteria and make these available to Minnesota Housing upon request.

Tenant selection policies and other prohibited activities:

- Tenant Selection Plans must be consistent with the purposes of providing housing for low- and very low-income families and housing must be limited to income-eligible families.
- Tenant Selection Plans must provide for selection of tenants from an existing written waiting list in the chronological order of their application.
- Tenant Selection Plans must allow for prompt written notification to any rejected application of the grounds for rejection.
- Tenant Selection Plans must be reasonable related to the applicants' ability to perform the obligations of the lease (ie, to pay the rent, not to damage the housing; not to interfere with the rights and quiet enjoyment of other tenants).
- Owners must comply with the Fair Housing Act, applicable provisions of 24 CFR Part 5, and any applicable HUD guidance.

6.06 Mandatory Lease Terms

HOME and NHTF both require written leases. Leases must be for a period of one year unless the tenant and the owner mutually agree to a shorter time.

All leases must contain the following provisions:

- **Tenant Income Certification:**
  - On an annual basis, the tenant must certify the household's income and composition by completing and signing a Tenant Income Certification form that is provided by owner.
  - The owner may terminate the lease or refuse to renew the lease of a household for failure to supply the completed and signed Tenant Income Certification form within 30 days of the request.
- **Third Party Income Verifications:**
  - The tenant must sign consents to third-party income verification as reasonably requested by owner.
  - The owner may terminate the lease or refuse to renew the lease of a household for failure to supply the consent to third party income verification within 30 days of the request.
- **Right of Access:**
  - The tenant must sign an acknowledgement that the owner, or his/her duly authorized agents, employees or representatives, upon reasonable notice to the household, must have the right of access to the dwelling unit for the purpose of examining the condition thereof and for making improvements and repairs, and for the purpose of showing the dwelling unit for re-rental.
- **Lease:**
  - The tenant and owner must sign an acknowledgement that the lease between a tenant and an owner of rental housing assisted with HOME or NHTF funds must be for not less than one year, unless by mutual agreement between the tenant and the owner.
- **Lease Addendum:**
  - Minnesota Housing provides the owner with a lease addendum that must be signed and retained in the tenant's file. This addendum includes the terms of the lease that are prohibited.

6.07 Prohibited Lease Terms

HOME and NHTF prohibit the following terms within tenant leases for HOME or NHTF-assisted tenants:

- **Agreement to be sued**: The lease cannot contain a tenant agreement to be sued, admit guilt, or accept a judgment in favor of the property owner in a lawsuit brought in connection with the lease
- **Treatment of property**: The lease cannot contain a tenant agreement that the property owner may take, hold or sell personal property of household members without notice to the tenant and a court decision on the rights of the parties. This prohibition, however,

does not apply to an agreement by the tenant regarding disposition of personal property remaining in the housing unit after the tenant has moved out. The property owner may dispose of this personal property in accordance with state law.

- **Excusing the property owner from responsibility**: The lease cannot contain tenant agreement not to hold the property owner or the property owner's agents legally responsible for actions or failure to act, whether intentional or negligent.
- **Waiver of notice**: The lease cannot contain a tenant agreement that the property owner may institute a lawsuit without notice to the tenant.
- **Waiver of legal proceedings:** The lease cannot contain a tenant agreement that the property owner may evict the tenant or household members without instituting a civil court proceeding in which the tenant has the opportunity to present a defense, or before a court decision on the rights of the parties.
- **Waiver of jury trial**: The lease cannot contain a tenant agreement to waive any right to a jury trial.
- **Waiver of right to appeal court decision**: The lease cannot contain a tenant agreement to waive right to appeal or to otherwise challenge in court a decision in connection with the lease.
- **Tenant chargeable with cost of legal actions regardless of outcome**: The lease cannot contain a tenant agreement to pay attorney fees or other legal costs even if the tenant wins a court proceeding by the property owner against the tenant. The tenant, however, may be obligated to pay costs if the tenant loses.
- **Mandatory Supportive Services**: The lease cannot require the tenant, as a condition of occupancy, to participate in or agree to accept supportive services that are offered.

6.08 Termination of Tenancy

The owner must comply with the program requirements on evictions as well as state law regarding eviction procedures. The owner must serve written notice upon the tenant specifying the grounds for the action and providing a specific period for vacating that is consistent with Federal, State, or local law.

Under the **HOME program**, tenancy may be terminated for any of the following:

- Serious or repeated violation of the terms and conditions of the lease
- Violation of applicable federal, state or local law
- Completion of the tenancy period for transitional housing
- Other good cause

Under the **NHTF program**, tenancy may be terminated for any of the following:

- Serious or repeated violation of the terms and conditions of the lease

- Violation of applicable federal, state or local law
- Other good cause

NOTE: Good cause does not include an increase in tenant income.

6.09 Contract Compliance and Equal Opportunity

Policy

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

Purpose

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

Goals

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

Requirements

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

Sanctions

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

6.10 Fair Housing Policy

It is Minnesota Housing's fair housing policy to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to its programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, familial status or sexual orientation.

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

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

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

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

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

Applicants must submit a Minnesota Housing Affirmative Fair Housing Marketing Plan at the time of application and use affirmative fair housing marketing practices in soliciting renters, determining eligibility and concluding all transactions.

Fair Housing and Section 8 Vouchers
Owners cannot refuse to lease HOME or NHTF-assisted units to a Section 8 voucher holder or to the holder of a comparable document because of the status of the prospective tenant as a holder of such voucher.

For more information on fair housing, please see the Minnesota Housing Multifamily HOME Programs Compliance Manual.

6.11 Affirmative Action

Minnesota Housing works affirmatively to ensure that all persons, regardless of race, color, creed, national origin, sex, religion, marital status, age, status with regard to receipt of public assistance, disability, sexual orientation, or familial status, will be treated fairly and equally in employment or program participation.

All programs financed or administered through Minnesota Housing will contain equal opportunity/affirmative action requirements in the contracts or procedural guides or manuals, regardless of whether or not federal funding is involved.

6.12 Equal Economic and Employment Opportunity

Employers with federally assisted construction contracts must not be discriminatory in employment practices. Whenever contracts involving HOME assistance consist of more than $10,000, an equal opportunity clause, as detailed by Executive Order 11246, must be incorporated into all construction contracts. Sixteen specific equal employment and affirmative action steps are outlined in Executive Order 11246 to establish good faith effort (these examples are not, however, the only options available to meet affirmative marketing and action requirements). See Minnesota Housing Equal Employment Opportunity Policy Statement.

6.13 Disputes Concerning Labor Standards and Payment of Wages for HOME Funded projects

Disputes arising out of labor standard provisions must be resolved in accordance with the policies and procedures listed below. This includes disputes between the contractor or subcontractor and Minnesota Housing, HUD, the Department of Labor or the employees and their representatives.

The purpose of these procedures is to establish a uniform method of receiving, and resolving and documenting complaints and investigations or disputes where Davis-Bacon Labor standards apply.

The following procedures must be followed to reach a resolution to labor standard disputes:

- The Minnesota Housing Labor Standards Officer (LSO) is responsible for resolving any complaints and conducting all investigations received where Davis-Bacon Labor Standards apply.
- All complaints received must be referred to the Minnesota Housing LSO for investigation and resolution within 10 days of receiving the complaint
- The Minnesota Housing LSO will investigate and review complaints, request additional information if necessary and issue a written notice of findings to all parties within 30 days of receiving all information required to make a decision.

If a contractor or subcontractor disagrees with the findings of the Minnesota Housing LSO concerning the complaint, the contractor or subcontractor can appeal the finding by submitting a written request to the Minnesota Housing LSO. The contractor or subcontractor must provide an explanation (along with supporting documentation) within 30 days of the original notification of findings.

The Minnesota Housing LSO and the Multifamily Assistant Commissioner will review the original findings and the information submitted appealing the finding to determine if the disagreement is justified. The contractor or subcontractor will be notified in writing within 30 days of receiving the written appeal.

If the contractor or subcontractor is not satisfied with Minnesota Housing's determination, they may request that the case be referred to HUD and/or the DOL for reconsideration. Such disputes must be resolved in accordance with the procedures of the DOL set forth in 29 CFR Parts 5, 6, and 7.

Additional Classification: A request for DOL reconsideration of a work classification and wage rate must be submitted in writing to the DOL within 30 days of the decision and must be accompanied by a full statement and supporting data or information.

The information introduced in this section is not intended as a full or complete description of labor standards, responsibilities and obligations. It is important to develop a working knowledge of HUD labor standards. If you are not well versed in labor standards issues and compliance, you may want to consider hiring an experienced consultant to ensure full compliance.

6.14 Owner's Letter Certifying Compliance for HOME Funded Projects

Upon completion, the owner must submit a letter to Minnesota Housing certifying compliance with all Davis-Bacon labor standards requirements.

Chapter 7 – Uniform Relocation Act (URA)

The purpose of the Uniform Relocation Act (URA) is to provide displaced persons with fair, equitable treatment and protection from disproportionate injury by projects designed to benefit the public. The URA requirements must be adhered to by the owner. If the borrowing entity will be displacing or temporarily relocating tenants, an experienced relocation specialist must manage the entire process. This section covers basic URA requirements. For a complete recital of federal URA requirements for HUD-funded projects, please see HUD Handbook 1378.

7.01 Displacement

Displacement occurs when a person (or their property) is displaced as a direct result (as defined under federal regulation) of a federally assisted acquisition, demolition or rehabilitation project. The term displaced person means any tenant, regardless of income, who is forced to move from the property permanently as a direct result of rehabilitation, demolition or acquisition of a HOME or NHTF-assisted project. This includes, but is not limited to, physical displacement caused by overcrowding, loss of a unit or economic displacement due to an increase in rents.

Minnesota Housing does not use HOME or NHTF funds for permanent displacement benefits. HOME and NHTF assistance will be provided only if rehabilitation will not cause involuntary displacement of existing tenants. The owner, owner's architect and/or contractors must thoroughly review applications to assess the potential for displacement.

The owner should also take care to follow the policies below when providing information to tenants to ensure that permanent relocation benefits are not inadvertently triggered by displacement under the URA. Tenants must be informed of their rights. This includes tenants living in the property at the time of application, tenants legally moving into the property after application for funding, and tenants moving into the property before construction completion. The potential for displacement may be a valid reason not to fund a project.

7.02 Temporary Relocation

Residents who are not required to move permanently may be required to move temporarily if all conditions of the move are reasonable. Tenants temporarily relocated must receive reasonable advance written notice of the location, terms and conditions of the temporary move and of their right to reimbursement of all reasonable out-of-pocket expenses. Minnesota Housing must review and approve a written plan of action that outlines the relocation activity and timelines. The plan must include a copy of the notice given to tenants. The notice must suggest comparable units and rents and give information about the timeline, payment for moving expenses, utility hookups and the option to move back to the original unit after rehabilitation.

The owner must prepare an outline of the relocation activity showing tenants' names, unit number and rent, address, size and rent of the comparable unit, other expenses paid, date of the move, and projected move back date to the original unit. If these procedures are not followed, a tenant would be considered displaced and becomes eligible for a displacement and relocation payment.

7.03 Required Notices and Compliance Responsibilities

Certain notices and information must be given to all tenants at specific times throughout rehabilitation of the project. Any displacement and permanent relocation expenses incurred will be the sole responsibility of the owner.

All notices under this section must be issued by the owner and personally served or sent by certified or registered first-class mail, return receipt requested. It is insufficient to have the owner or property manager state that notices were delivered. There must be evidence of delivery on file for notices provided to the unit, and a copy must also be provided to Minnesota Housing. To ensure optimal compliance with the URA obligations, Minnesota Housing will require the General Information Notice (GIN) to be issued to the occupant of the unit within 30 days of the signing of HOME and NHTF Funding Application Certifications.

General Information Notice (GIN) informs occupants of the planned rehabilitation activities and their rights under the URA.

Non-Displacement Notice informs households of their rights, terms and conditions to remain in the property after completion of the assisted activity. If the owner is certain that no tenants will be displaced as a result of rehabilitation, the GIN and Notice of Non-Displacement may be combined into a single notice.

Temporary Relocation Notice informs households being temporarily relocated of their rights and the conditions of their temporary move. It must include addresses of comparable replacement apartments and information on any assistance available.

Move-in Notice must be given to prospective or new occupants. It explains that the owner has applied to receive federal assistance for rehabilitation activities that could involve displacement or a rent increase and that they (households) will not be entitled to relocation assistance in either event. If the Move-in Notice is not signed before the tenant signs the lease, the owner must give the tenant the GIN, the Notice of Non-Displacement and the Temporary Relocation Notice, if applicable.

7.04 Notices if Households will be Displaced

Notice of Eligibility informs displaced households of their rights, levels of assistance and procedures for obtaining assistance under the URA.

Notice to Vacate is a 90-day notice that informs displaced households of the earliest date they must vacate the property.

7.05 After Construction Completion

The owner must have readily available records demonstrating compliance with the URA and applicable relocation regulations. The URA records must be kept for at least five years after the later of either of the following:

- The date the person has received all of the assistance to which the person is entitled
- The date the project is completed

Records must include documentation sufficient to preclude any possible later claim by a non-displaced or temporarily displaced tenant that they were displaced by the project. For any displaced persons, a separate case file must be created and retained for each affected person.

7.06 Guiding Statutes, Regulations and Reference Materials

Applicable statutes and regulations pertaining to displacement include:

- The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 that applies to displacement resulting from acquisition, demolition or rehabilitation for HUD-assisted projects carried out by public agencies, nonprofit organizations, private developers or others and real property acquisition for HUD-assisted projects (whether publicly or privately undertaken)
- Section 104(d) of the Housing and Community Development Act of 1974
- HOME program regulations found in 24 CRF Part 92
- NHTF program regulations found at 24 CFR Part 93
- Handbook 1378: Tenant Assistance, Relocation and Real Property Acquisition, as updated, consolidates relocation requirements for all HUD programs in one document and provides instructions for compliance

Chapter 8 – Preservation Activities

Owners and developers should consider all forms of existing assistance and financing when structuring a project or considering additional funds from other sources. Units assisted with HOME or NHTF funds must comply with the income and rent restrictions applicable to those programs and discussed in depth in other sections of this manual. Non-compliance with all other existing assistance and financing requirements could impact your award.

Contact Minnesota Housing with any additional questions.

For example, with USDA Rural Development (RD) properties:

- Contact the local RD office prior to submitting application for Minnesota Housing funding to discuss RD's procedure for applying for federal loans
- Ensure that RD's construction analyst or architect has inspected the site and assisted with the scope of work
- Minnesota Housing will allow a maximum of 80 percent of the units to be financed with HOME or NHTF assistance.

Chapter 9 – Program Contact

For questions, contact Lori Speckmeier, Program Manager, at 651.296.9538 or lori.speckmeier@state.mn.us. You may also contact the Housing Development Officer (HDO) identified in your selection letter.

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Board Agenda Item: 7.A
Date: 4/28/2016

Item: **Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2016 Series ABCD**

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Terry Schwartz, 651.296.2404, terry.schwartz@state.mn.us
Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☒ Resolution	☐ Information

Summary of Request:
Agency staff is preparing to issue bonds to provide funds for the acquisition of newly originated mortgage-backed securities and to refund certain single family Residential Housing Finance Bonds issued in 2007. A Series Resolution prepared by the Agency's Bond Counsel, Kutak Rock, will be provided separately, and a Preliminary Official Statement (prepared by Agency staff), is included in the packet. The board will be asked to adopt the resolution approving the terms of the bond issues, on a not-to-exceed basis. The bonds will be fixed rate bonds, and are expected to price in May of 2016, with closing contemplated for late June, 2016.

Fiscal Impact:
The transaction is expected to add interest-bearing assets to our balance sheet at the fully allowed spread relative to the debt financing those assets, as well as lower the interest costs of the Agency by refinancing higher cost existing debt to lower cost debt.

Meeting Agency Priorities:
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Resolution (sent under separate cover)
- Preliminary Official Statement (sent under separate cover)

Board Agenda Item: 7.B
Date: 4/28/2016

Item: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Direct Purchase SIFMA Index Flexible Drawdown Bonds

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Terry Schwartz, 651.296.2404, terry.schwartz@state.mn.us
Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:

Staff requests approval of the issuance of a drawdown bond to allow a more proactive approach to managing the use of volume cap. A resolution (prepared by the Agency's Bond Counsel, Kutak Rock), will be forthcoming under separate cover. The board will be asked to adopt this resolution approving the terms of the issuance. The bond will be a variable rate bond.

Fiscal Impact:

Under the proposed transaction, the Agency will incur a number of costs. First, there will be approximately $50,000 in 1-time transaction costs to establish the facility. Second, once established, the Agency will pay interest on any amounts drawn under the facility at a rate of the SIFMA Index (1) + 40 or 45 basis points (non-AMT and AMT); the Agency will also pay a fee on the undrawn amount of SIFMA Index + 15 basis points. On an annualized basis, Agency staff project an approximate ongoing cost of the facility of roughly $250,000, though the specific amount will depend upon the actual usage.

(1) SIFMA Index is a standard municipal market variable rate index published by the Securities Industry and Financial Markets Association

Meeting Agency Priorities:

☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):

- Resolution (provided under separate cover)
- Background

Board Agenda Item: 7.B
Date: 4/28/2016

Background

Under IRS rules, many of the Agency's bond issues require an allocation of tax-exempt bond allocation (also known as "volume cap"). In the recent past, the available allocation has been more than sufficient to provide capacity for the Agency's bond issuances. However, for a variety of reasons the Agency desires to take a more proactive approach to managing the use of volume cap going forward as it is now apparent that the volume cap resource will be more constrained. At the same, the Agency desires to continue to place interest earning assets on the balance sheet.

After reviewing a number of options and structures to achieve these two objectives, staff is recommending the proposed issuance of a drawdown bond. A resolution (prepared by the Agency's Bond Counsel, Kutak Rock), will be forthcoming under separate cover. The board will be asked to adopt this resolution approving the terms of the issuance. The bond will be a variable rate bond.

As proposed, the drawdown bond facility will provide a number of benefits to the Agency. First, it allows the Agency to accumulate the cash that comes in from mortgage loan principal payments and prepayments rather than using it to redeem outstanding bonds. (Instead, the proceeds from the drawdown bond will be used to redeem existing bonds.) As that cash builds up over time, eventually the Agency will be able to issue long-term refunding bonds to pay off the drawdown bond, and use the accumulated cash to finance new single-family mortgage loan origination, without requiring new bond volume cap allocation. By doing this, the Agency will be putting full spread earning assets on the balance sheet to provide ongoing earnings to fund Agency operations and programs. Because it is not practical for the Agency to issue and sell long-term bonds every month to finance new mortgage assets, the drawdown facility provides an efficient and effective way to grow the balance sheet profitably while retaining maximum flexibility for utilization of bond volume cap.

Board Agenda Item: 7.C
Date: 4/28/2016

Item: Low-Income Housing Tax Credits Program - 2016 Round 2 Selections and Waiting List

Staff Contact(s):
Summer Jefferson, 651-296-9790, Summer.jefferson@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☒ Resolution	☐ Information

Summary of Request:
Adoption of the attached resolution authorizing the selections and reservation/increased reservation of low-income housing tax credits for Round 2 of the 2016 Housing Tax Credit Program year and as credits become available, and subject to final reviews, the developments on the Waiting List indicated on Attachment: HTC 2016 Round 2**.**

Fiscal Impact:
Low-Income housing tax credits are a federal resource and therefore do not adversely impact the Agency's financial condition.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Predictive Model Cost Rationale
- HTC 2016 Round 2
- Resolution

BACKGROUND

Minnesota Housing received applications for the final 2016 Housing Tax Credits (HTC) application round (Round 2) on January 26, 2016. In Round 2, applications are selected without regard to geographic distribution. Developments 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 2016 HTC program is currently $12,900,545 based upon $2.35 per capita and adjustments for updated population numbers. In the 2016 HTC Round 1 (Round 1), a total of $12,355,142 in credits, as adjusted, was allocated against a total Round 1 credit availability of $12,551,497. A total of $807,139, as detailed below, is currently available for Round 2.

2016 Round 1 remaining balance, as adjusted	$ 196,355
Increase due to update of per capita	$ 272,859
Increase due to update of population	$ 76,189
Returned credits	$ 261,736
National Pool (estimated)	Not Yet Released by IRS
2016 Current Balance (available to Round 2)	$ 807,139

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 developments returned to the Agency prior to October 1, 2016 in accordance with the requirements of Section 42.

The Agency received nine applications requesting a total of $3,215,823 of Round 2 tax credits. Four applications had previously received awards of tax credits either from Minnesota Housing or from one of the sub-allocators. All four qualified for the Round 2 supplemental request priority. The remaining five applications are new applications.

All applications were ranked in accordance with the selection criteria outlined in the 2016 HTC Qualified Allocation Plan (QAP). In accordance with the 2016 QAP, the four supplemental applications were reviewed on a priority basis. A total of $519,586 in tax credits is recommended for the four supplemental applications. An amount of $287,553 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 $0. If any returned credits and/or National Pool credits are received, these will be evaluated for use with proposals which are placed on the 2016 Waiting List. The proposals recommended for placement on the Waiting List have received preliminary review and are subject to final reviews should sufficient credits become available to substantially fund another project.

Staff’s recommendations for 2016 Round 2 tax credit selections and the 2016 Waiting List are summarized on the HTC 2016 Round 2 attachment.

PREDICTIVE MODEL COST RATIONALE

Staff analyzes all proposals on a total and per unit cost basis using a Predictive Cost Model. This model was developed by Minnesota Housing research staff as one way to identify proposals having higher costs than expected. Agency staff works with applicants to understand and mitigate high costs. In August 2015, the board adopted a policy that requires staff to identify and provide rationale for all recommended proposals that exceed the predictive model estimate by greater than 25 percent. One application meets this threshold and is described below.

Bois Forte Homes III, Bois Forte D7641/M16051

TDC	TDC Per Unit	Predictive Model Amount	Amount Per Unit above Predicted Amount	Percent above Predicted Model
$ 5,940,988	$ 297,049	$ 236,595	$ 60,454	25.5 percent

The TDC per unit of $297,049 is 25.55% above the predictive model estimate. The proposed costs are higher than the predicted costs because the project is located on two separate and remote sites on the Bois Forte reservation; and historically, tribal developments have had higher costs due in part to TERO fees (Tribal Employment Rights Ordinance) and other factors that are not taken into account by the predictive model. Additionally, Northeastern Minnesota appears to be experiencing a spike in construction costs.

HTC 2016 Round 2 – January 26, 2016

Selection Summary

Project Number	Project Name	Proposed HTC Award
M17357	Bois Forte Homes III, Bois Forte	$ 287,553
M16054	Creeks Run Townhomes II, Chaska	$ 252,454
M17361	Indian Knoll Manor, Mound	$ 68,900
M17358	PPL Youthlink Supportive Housing, Minneapolis	$ 24,032
M17362	PRG I Portfolio, Minneapolis	$ 174,200

PROPOSED TOTAL CREDITS TO BE AWARDED: $ 807,139

2016 Waiting List *

Project Number	Project Name	HTC Requested
M17357	Bois Forte Homes III, Bois Forte	$ 261,152
M17359	Bottineau Phase II	$ 1,000,000
M17354	Main Street Flats	$ 468,907
M17360	Nettleton Apartments	$ 460,000
M17353	Riverview Apartments	$ 218,625

TOTAL CREDITS REQUESTED: $2,147,532

***** Staff has not completed final market or feasibility reviews for the Waiting List developments. Only preliminary market and feasibility reviews have been completed for these Developments at this time. If funds become available the developments 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.

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

RESOLUTION NO. MHFA 16-

RESOLUTION RESERVING FEDERAL LOW-INCOME HOUSING TAX CREDITS FOR CALENDAR YEAR 2016 TO CERTAIN QUALIFIED LOW INCOME HOUSING d
2016 - 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 developments of the Low-Income Housing Tax Credits (HTC) 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 2016; and

WHEREAS, Agency staff has determined to reserve, for future allocation, portions of the state ceiling of the Low Income Housing Tax Credits to the developments 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 HTC to developments as follows:

Developments Receiving Additional Housing Tax Credits

Project Number	Project Name	Additional HTC Awarded
M16054	Creeks Run Townhomes II, Chaska	$ 252,454
M17361	Indian Knoll Manor, Mound	$ 68,900
M17358	PPL Youthlink Supportive Housing, Minneapolis	$ 24,032
M17362	PRG I Portfolio, Minneapolis	$ 174,200

Developments Receiving a New Award of Housing Tax Credits

Project Number	Project Name	HTC Awarded
M17357	Bois Forte Homes III, Bois Fore	$ 287,553

Developments on the 2016 Waiting List

Project Number	Project Name	HTC Requests
M17357	Bois Forte Homes III, Bois Forte	$ 261,152
M17359	Bottineau Phase II	$ 1,000,000

M17354	Main Street Flats	$	468,907
M17360	Nettleton Apartments	$	460,000
M17353	Riverview Apartments	$	218,625

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 2016 of the HTC upon compliance with all of the requirements contained in the Manual and QAP.

2. THAT in accordance with the Manual and QAP the Commissioner is authorized to allocate the above stated amounts of HTC to the developments identified above, , and to those other Developments identified on the Waiting List, to the extent such credits become available.

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

Adopted this 28th day of April, 2016

____

CHAIRMAN

Minnesota Housing Finance Agency

Board Agenda Item: 7.D
Date: 4/28/2016

Item: Crossroads of Edina, Edina, D3286

Staff Contact(s):
John Rocker, 651-284-0078, john.rocker@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☒ Resolution	☐ Information

Summary of Request:
Agency staff has completed the underwriting and technical review of the development and requests approval of the adoption of a resolution authorizing the selection and commitment in the amount of $3,190,365 under the Preservation Affordable Rental Investment Fund (PARIF) program, subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

Fiscal Impact:
The new PARIF loan will be funded through state appropriations and will not have any fiscal impact on the Agency's financial condition

Meeting Agency Priorities:
☐ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Development Summary
- Resolution

Background

Minnesota Housing staff received this request as a pipeline application in January 2016. This is one of three Section 8 projects being acquired and rehabilitated by the Related Companies. All three projects will be financed with tax-exempt notes issued by Minnesota Housing and 4% tax credits using Freddie Mac's Tax Exempt Loan (TEL) program. The Board approved the tax-exempt notes for all three projects at its February 25, 2016 meeting. In addition to the tax-exempt notes and tax credits at the Crossroads of Edina, the seller is repaying the existing $1,190,365 PARIF loan and staff is requesting approval of a new $3,190,365 PARIF loan for the new owner. This project will be fully funded and ready to start construction in the second quarter of 2016 after the recommended approval of the PARIF loan.

Development Summary

DEVELOPMENT

			D3286
Name:	Crossroads of Edina		App#: M17351
Address:	5500 Oak Glen Road		
City:	Edina	County: Hennepin	Region: Metro

MORTGAGOR

Ownership Entity: CR Edina Acquisition, LLC

General Partner/Principals: Related CR Edina LLC, an affiliate of the Related Companies, LP

DEVELOPMENT TEAM

General Contractor: Legacy Construction Services LLC, Charlotte

Architect: Bailey Edward Design Inc, Chicago

Attorney: Levitt & Boccio LLP, New York

Management Company: Metroplex Management Corporation, Chicago

Service Provider: Not Applicable

CURRENT FUNDING REQUEST/ PROGRAM and TERMS

$3,190,365	PARIF	
	Funding Source:	PARIF Program
	Interest Rate:	0.00%
	Term (Years):	30

RENT GRID

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
1BR	4	676	$ 1,357	$ 0	$ 54,280
2BR	38	1,073	$ 1,475	$0	$ 59,000
3BR	22	1,197	$ 1,797	$ 0	$ 71,880
TOTAL	64				

* The 26 units that are one- and two-bedroom floor plans will have the benefit of project based Section 8 rental assistance ensuring that residents pay no more than 30% of their income toward rent.

Purpose

Crossroads of Edina is one of three Section 8 projects that the Related Companies is proposing to acquire and rehab and preserve the Section 8 rental assistance for the long term. All three projects will be financed with tax-exempt notes and 4% tax credits using Freddie Mac's Tax Exempt Loan (TEL) program. The Minnesota Housing Board has approved the tax-exempt notes for all three projects and Agency staff has underwritten the tax credit applications for each. The Section 8 contracts for all three properties are also being renewed for 20 years and will continue to be renewed as long as the PARIF loan is outstanding on the property. In addition to the tax-exempt notes and tax credits at the

Crossroads of Edina, the seller is repaying the existing $1,190,365 PARIF loan and staff is requesting approval of new $3,190,365 PARIF loan for the new owner.

Target Population

The project is a general-occupancy mixed-income property serving individuals and families. Thirty-eight units (60%) are market rate and 26 units (40%) are affordable under an existing HAP contract. The affordable units will also be income- and rent-restricted by Low Income Housing Tax Credits.

Project Feasibility

The development is feasible as proposed. Minnesota Housing will issue $8,700,000 in conduit tax-exempt notes that are purchased by Freddie Mac to secure a first mortgage in the same amount. The tax-exempt notes do not create any financial obligation for the Agency because payments on the notes are limited to the amount paid by the property. The issuance of the tax-exempt notes allows the project to be eligible for 4% tax credits. The $178,661 in annual 4% credits is being purchased by WNC & Associates for $1.09 per credit, generating $1,947,000 in syndication proceeds for the project. Other sources of funding include $181,400 in interim income generated by the property plus $1,303,076 in deferred developer fee. Additionally, this transaction will leverage a present value of $9.5 million in future HAP payments over the 30 year term of the loan; a 3 to 1 return on the Agency's deferred loan investment.

Development Team Capacity

Related Affordable, LLC (Related) is the managing member of both the developer and new ownership entity. Related Affordable owns more than 4,100 units of affordable housing, throughout the United States. Related Affordable is in the process of acquiring a portfolio of three developments, including the subject, currently financed with the Agency. Related Affordable has sufficient experience and capacity to complete the acquisition and rehabilitation on time and within budget.

Metroplex, Inc. will continue as the management company of the subject as well as two other portfolio developments being acquired by Related. Metroplex manages 25 developments with over 4,200 units. Its current portfolio includes affordable, market rate and units assisted with Section 8 rental assistance. Metroplex has experience with Minnesota Housing financing and reporting, including LMIR mortgage reporting.

Physical and Technical Review

Crossroads of Edina was built in 1981 and renovated in 2003. The development includes a mix of one-, two- and three-bedroom units in 10 two-story buildings. The project is located less than one mile west of Highway 100 and just south of 70th Street in Edina.

The proposed renovation will include unit interior upgrades (kitchens, bathrooms, flooring & lighting), accessibility upgrades, energy efficiency upgrades, mechanical equipment replacement, façade upgrades, roof insulation, window replacement, the renovation of the management office, landscaping and other site work improvements.

The budgeted Total Development Cost (TDC) is $239,392 per unit, which is 30% above the predictive model estimate of $184,827 per unit. This difference is due mostly to the cost of acquisition, which reflects the average market rent of $1,439/unit and escalating purchase prices in the area over the past year. The high acquisition cost is partially offset by the more modest rehab costs which reflect the relatively good physical condition of the property.

Market Feasibility

The Subject is an existing development that averages 96-99% occupancy. Other affordable and market rate properties in the primary market area also have low vacancy levels, maintain waiting lists, and reported that units are in strong demand. The Subject currently benefits from a Project-Based Section 8 contract for 26 of the units. The achievable tax credit rent levels offer an advantage over current market rents the Subject could achieve even without the benefit of the Section 8 subsidies. The area is forecast to continue positive growth of both population and households. As the total population and number of households continue to grow, the demand for housing units will continue to increase.

Supportive Housing

Not Applicable

DEVELOPMENT COST SUMMARY:

	Total		Per Unit
Total Development Cost	$15,321,065		$239,392
Acquisition or Refinance Cost	$10,000,000		$156,250
Gross Construction Cost	$2,065,321		$32,271
Soft Costs (excluding Reserves)	$2,867,924		$44,811
Reserves	$387,820		$6,060
Agency Deferred Loan Source			
PARIF	$3,190,365		$49,849
Total Agency Sources	$3,190,365		$49,849
Total Loan-to-Cost Ratio		21%	
Other Non-Agency Sources			
First Mortgage	$8,700,000		$135,938
Tax Credit Investment Proceeds	$1,947,000		$30,422
Interim Income	$181,400		$2,834
Deferred Developer Fee	$1,302,300		$20,348
Total Non-Agency Sources	$12,130,700		$189,542

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

RESOLUTION NO. MHFA 16-XX

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) 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:	Crossroads of Edina
Sponsors:	Related Companies
Location of Development:	Edina
Number of Units:	64
General Contractor:	Legacy Construction Services LLC, Charlotte
Architect:	Bailey Edward Design Inc, Chicago
Amount of Development Cost:	$15,321,065
Amount of PARIF Loan:	$3,190,365

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 construction and permanent mortgage loans to said applicant from PARIF program funds for the indicated development, upon the following terms and conditions:

1. The amount of the PARIF loan shall be up to $3,190,365; and

2. The terms of the PARIF loan shall be 0 percent interest for 30 years, with an annual principal payment of $20,000 and the outstanding balance due at the end of the term; and

3. The PARIF Commitment shall be entered into on or before October 31, 2016; and

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

5. 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

6. In accordance with subd. 39 of Minn. Stat. § 462A.05, and the rider to the appropriation providing funds to the program, the Mortgagor will enter into a covenant running with the land requiring owner to renew the Section 8 HAP contract for the term of the PARIF loan, and to agree to accept renewals of such assistance for so long as it is made available to the development, and providing the right of first refusal to a non-profit or local unit of government should the Owner receive a viable purchase offer during the term of the loan; and

7. 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 28th day of April, 2016.

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CHAIRMAN

Board Agenda Item: 8.A
Date: 4/28/2016

Item: 2016 Key Trends for Affordable Housing

Staff Contact(s):
John Patterson, 651.296-0763, john.patterson@state.mn.us

Request Type:

☐ Approval	☒ No Action Needed
☐ Motion	☒ Discussion
☐ Resolution	☐ Information

Summary of Request:
We have attached for your review and discussion our annual publication regarding *Key Trends for Affordable Housing*. We will use this report as background information as we develop the 2017 Affordable Housing Plan (AHP). We are just starting the planning process and will bring to the Board a draft AHP in August.

Fiscal Impact:
None

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- 2016 Key Trends for Affordable Housing

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Planning, Research & Evaluation

2016 Key Trends for Affordable Housing

April 2016

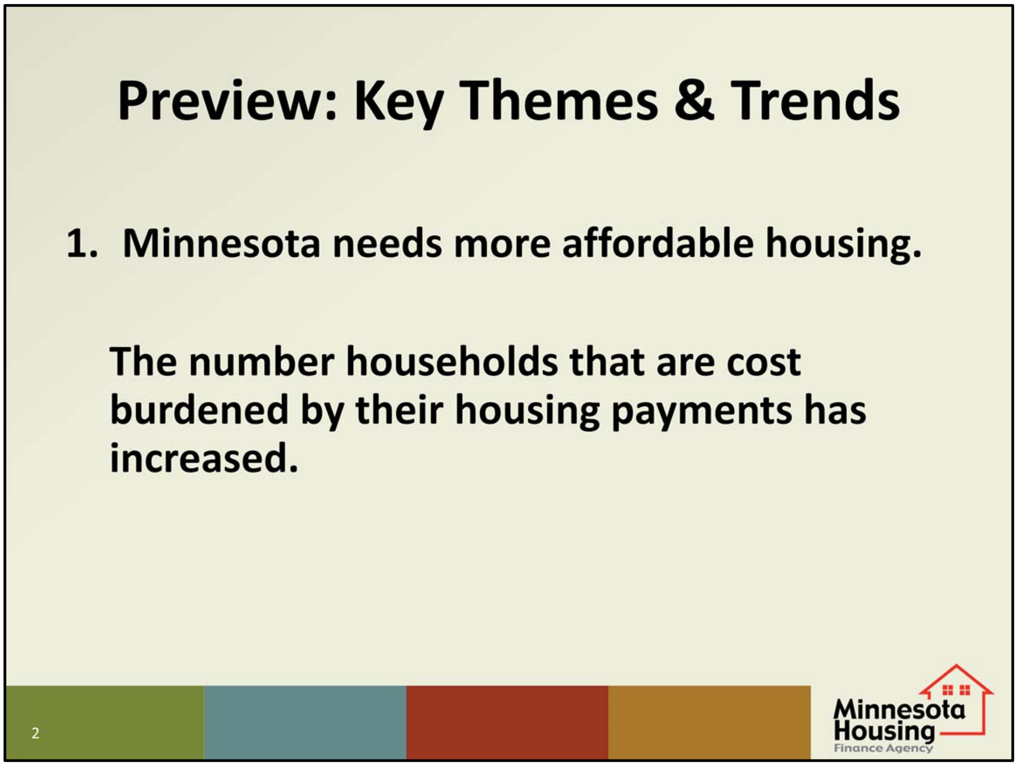
Minnesota Housing Finance Agency

Introduction

As Minnesota Housing prepares its 2017 Affordable Housing Plan, the Agency needs to consider the environment in which it is working. How will demographic, economic, market, and community trends affect the Agency's work over the next year or two?

This report highlights ten broad themes:

This report is structured as a chart book – largely graphs and maps documenting issues and trends with some explanatory notes.

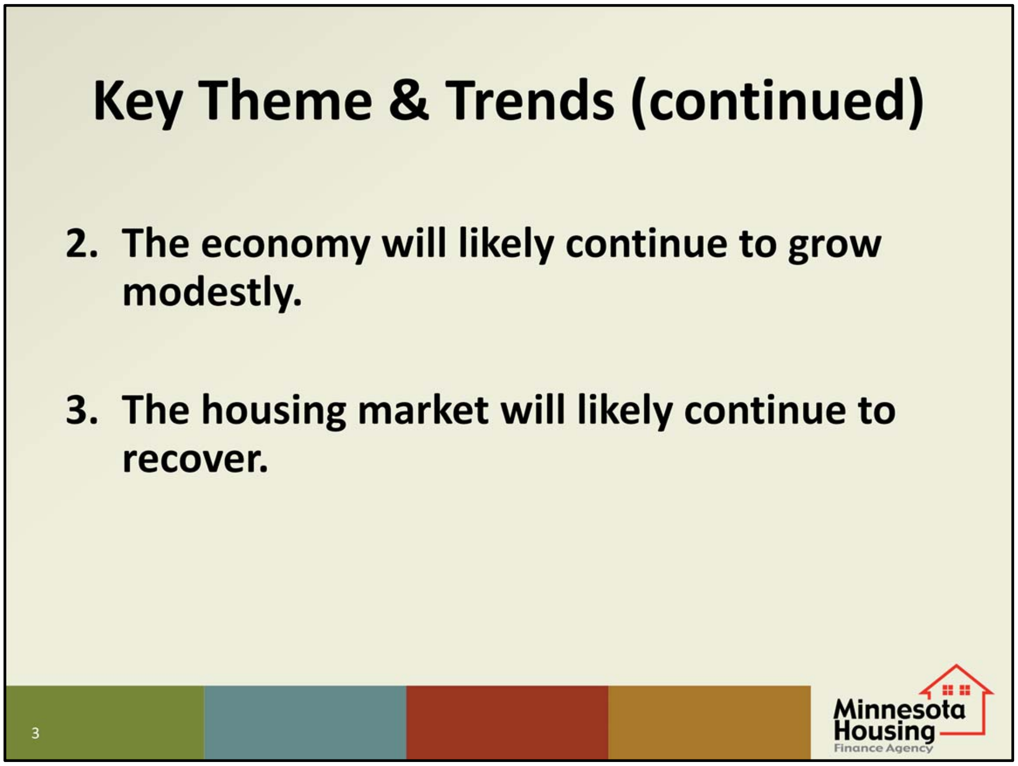


This report provides a lot of information and data. To help the reader process the information and put it into context, the following five sides provide a preview of the key themes and trends that will be covered.

Minnesota needs more affordable housing.

- The number of Minnesota households that are cost burdened by their housing payment increased by 69%, from 350,000 in 2000 to 590,000 in 2014.
- Households are cost burdened if they spend more than 30% of their income on housing.
- In 2014, 480,000 lower-income households were cost burdened, accounting for 58% of that population. This assessment only includes households with annual incomes less than $50,000.
- The increasing need has occurred because median incomes have declined and housing costs have fluctuated but increased overall.
- In 2015, we assisted nearly 64,000 households, which is an impressive number, but falls well short of the need reflected by the 480,000 cost-burdened lower-income households.

How should we use our limited resources to address this large and growing need?



In 2008, the housing bubble burst, leading to dramatic declines in home values and prices. Prices stayed depressed through 2011. The resulting foreclosure and financial crisis sent the economy into the Great Recession. While the economy started to recovery very slowly in 2009, the housing market really didn't start to recover until 2012.

The economy will likely continue to grow modestly.

- The U.S. economy is expected to grow by roughly 2.5% annually for the next few years.

- The unemployment rate in Minnesota declined from 8.1% in June 2009 to 3.9% in June of 2014 and has leveled off, staying between 3.6% and 3.8% for nearly two years.

The housing market will likely continue to recover.

- Median home prices (inflation adjusted) in the Twin Cities metro area increased from $165,000 in June of 2011 to $228,000 in June of 2015.

- The months supply of homes for sale (a measure of inventory relative to the pace of sales) is currently below five months, reflecting a limited supply and the likelihood of rising prices.

- The rental vacancy rate in the Twin Cities metro area dropped from 7.3% in the 4^{th} quarter of 2009 to 2.3% in the 3^{rd} quarter of 2011 and is currently at 2.3%. The persistently low rate will continue to push up rents.

With modest economic growth, incomes will likely struggle to keep pace with expected housing cost increases, making housing less affordable.

- While a tight housing market, as reflected by low rental vacancy rates and low months supply of homes for sale, are driving up housing costs; modest economic and job expansion may limit income growth.

With a stronger economy, new households are forming, which is modestly increasing the demand for housing.

- After annually increasing by over 1% prior to the recession, the number of households in Minnesota declined in 2009, when the economy bottomed out.
- With the modest and slow economic recovery since then, the annual household growth rate has slowly climbed to 0.4%.

More affordable housing is needed in areas with a growing workforce.

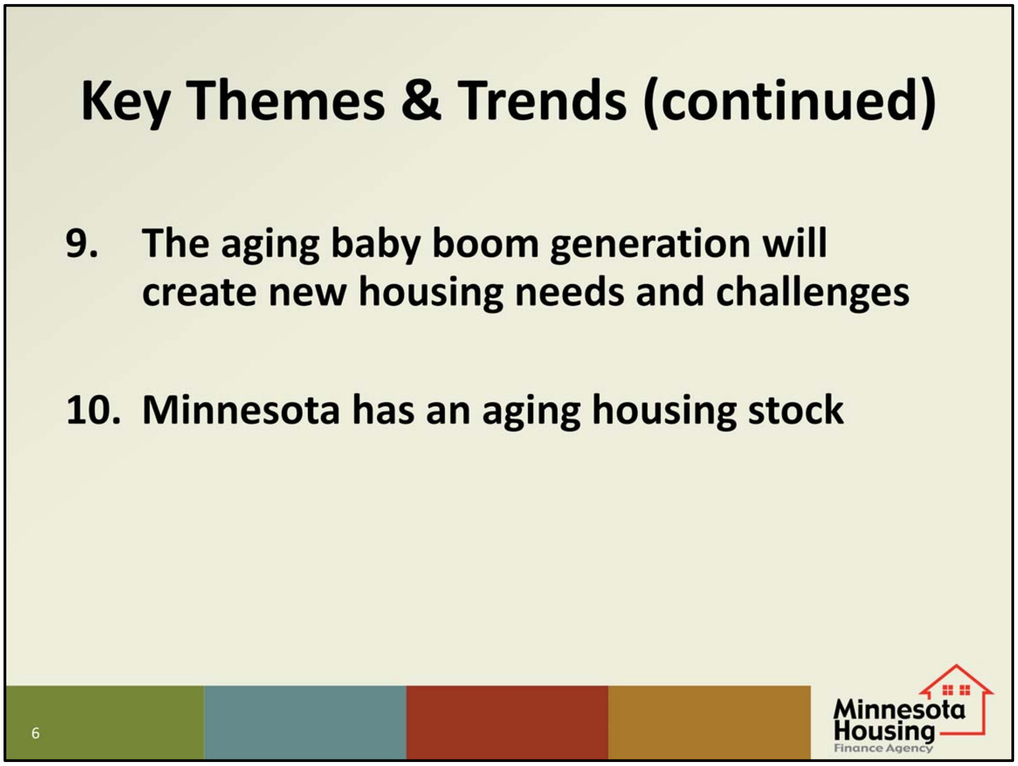
- In 2015, we identified 77 Minnesota communities with a need for workforce housing.
- To increase the vacancy rate from 2.5% to 4%-5% and create a more balanced rental market, these workforce housing communities need an additional 4,500 to 7,500 apartments.
- The stronger economy, the very limited multifamily construction during the recession and its aftermath, and the decline in overall homeownership all contributed to the low vacancy rates.

Minnesota is becoming more diverse, but disparities in homeownership are significant.

- The share of Minnesotans who are of color or Hispanic ethnicity is expect to grow from 18.7% in 2015 to 24.8% in 2035.
- Minnesota's 35.4 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the third largest in the country.
- Reducing the disparity is one of our strategic priorities. In 2015, 29% of our first-time homebuyers were households of color or Hispanic ethnicity, which is a lending rate nearly three times the industry average.

For the first time, the number of people experiencing homelessness had a significant decline in 2015.

- A worst-case scenario resulting from a lack of affordable housing is homelessness.
- Preventing and ending homelessness is one our strategic priorities.
- Through the Interagency Council on Homelessness, Minnesota has a Plan to Prevent and End Homelessness.
- After 20 years of increases, the number of people experiencing homelessness declined by nearly 10% in 2015.



The aging baby boom generation will create new housing needs and challenges.

- A major demographic trend is the aging of the population.
- With fixed-incomes and higher rates of disabilities, seniors have unique affordable housing needs. Initially, assisting lower-income baby boomers who are homeowners will be important.
    - Most low-income seniors are homeowners.
    - Most seniors remain homeowners through age 75-84.
    - The largest group of baby boomers is still under age 60, indicating that most will be homeowners for at least another 15+ years.
- Nevertheless, the state will see a dramatic increase in senior renters in the future, for which we need to plan carefully.

Minnesota has an aging housing stock.

- While additional affordable housing is needed, the state needs to preserve what it already has. Minnesota's nearly 40,000 rental properties that receive rent subsidies (limiting a tenant's share of rent to 30% of their income) are particularly important to preserve.

Theme/Trend #1

Minnesota Needs More Affordable Housing

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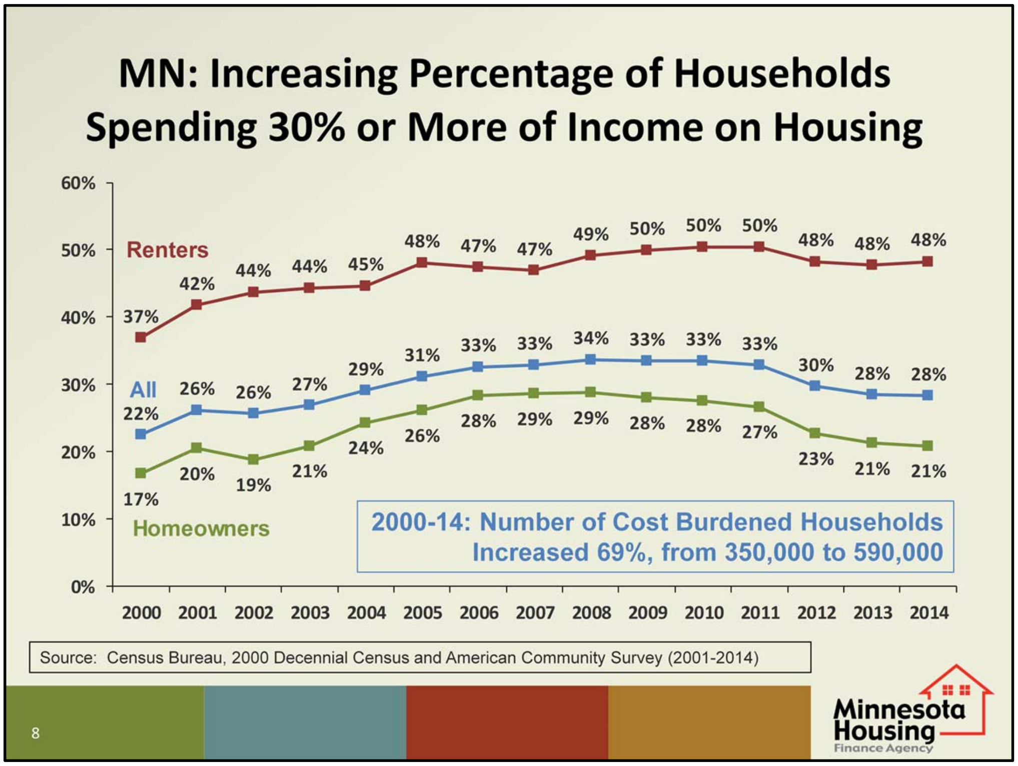
Minnesota Housing
Finance Agency



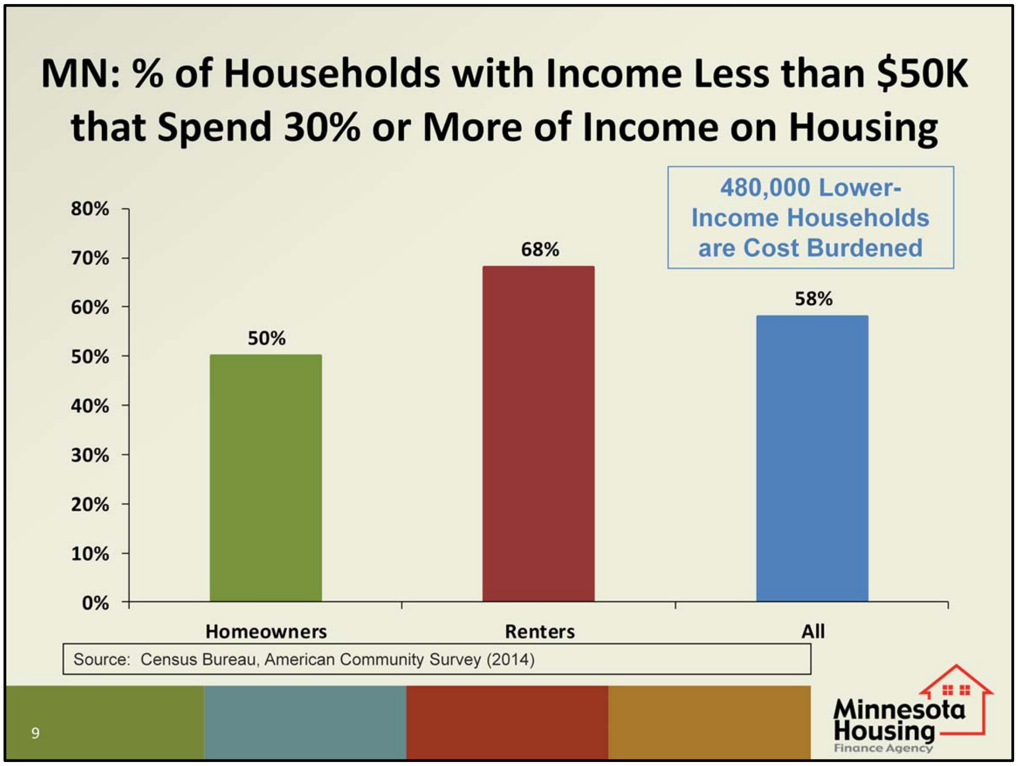
This graph shows the percentage of Minnesota households that were cost burdened over the last 15 years (spending more than 30% of their income on housing). Being cost burdened indicates that a household lacks affordable housing.

Key Points:

- The number of cost burdened households increased 69%, from 350,000 in 2000 to 590,000 in 2014
- The share of all households that are cost burdened (middle blue line) increased from 22% in 2000 to 28% in 2014.
- The share of renters (top maroon line) increased from 37% in 2000 to 48% in 2014.
- The share of homeowners (bottom green line) increased from 17% in 2000 to 21% in 2014.

Implications:

- Since 2000, the need for more affordable housing has increased.
- Starting in 2012, there was a noticeable improvement. As the following graphs will show:
  - Incomes rose in in 2012 and 2013; but in 2014, they started showing signs of leveling off.
  - With respect to homeownership, lower home prices and interest rates after the housing collapse helped alleviate the situation significantly. New homeowners benefited from lower home prices, but existing homeowners also had the opportunity to refinance to the lower-interest rates and reduce their housing payments.
- The cost-burden situation is more severe for renters.
- As we assess the affordable housing landscape, there are a few key questions. Will the recent improvement continue? Will incomes for households in the bottom half of the income spectrum rise with the improving economy? Will incomes keep pace with rising housing costs?



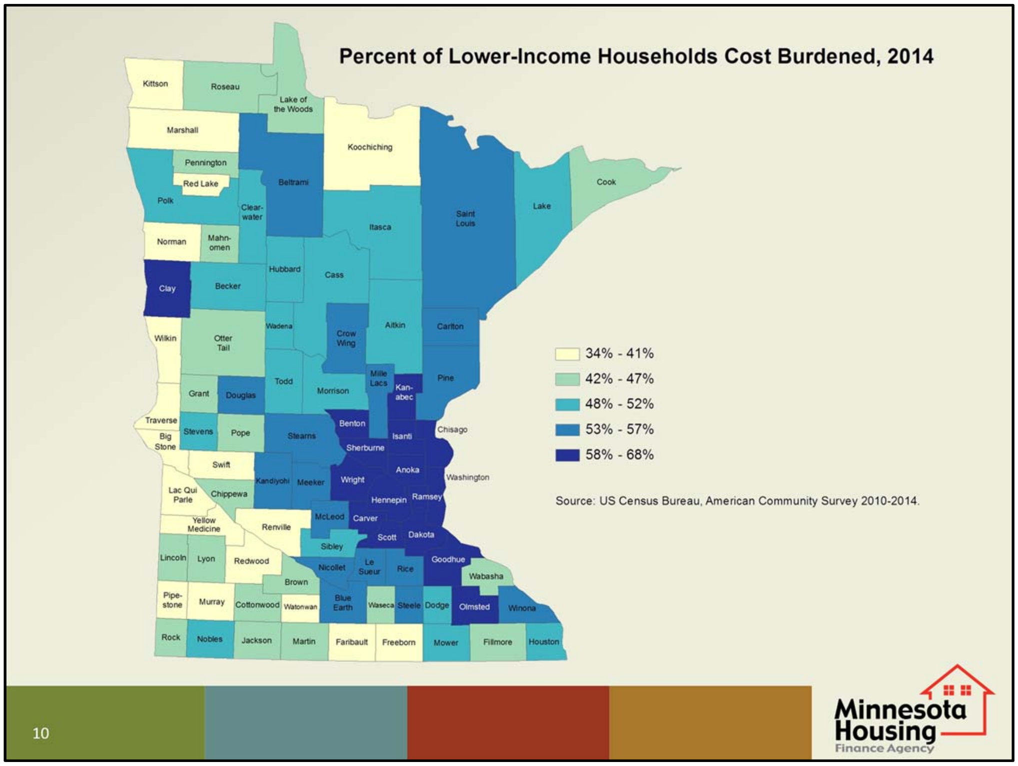
While the previous graph showed the percentage of all households that were cost burdened, this graph shows the percentage of lower-income households that were cost burdened in 2014. For this assessment, we define lower-income as households with an income less than $50,000, which is roughly 60% to 100% of the area median income (AMI) depending on the county.

Key Points:

- The need for more affordable housing is very large, especially for lower-income households.
- 58% of lower-income households (blue bar) are cost burdened.

Implications:

- We do critical work, and we must be as strategic and effective as possible.
- There are about 480,000 lower-income households in Minnesota that are cost burdened.
- In 2015, we assisted nearly 64,000 households. While this is a large and impressive number, it is not large enough to meet the need.



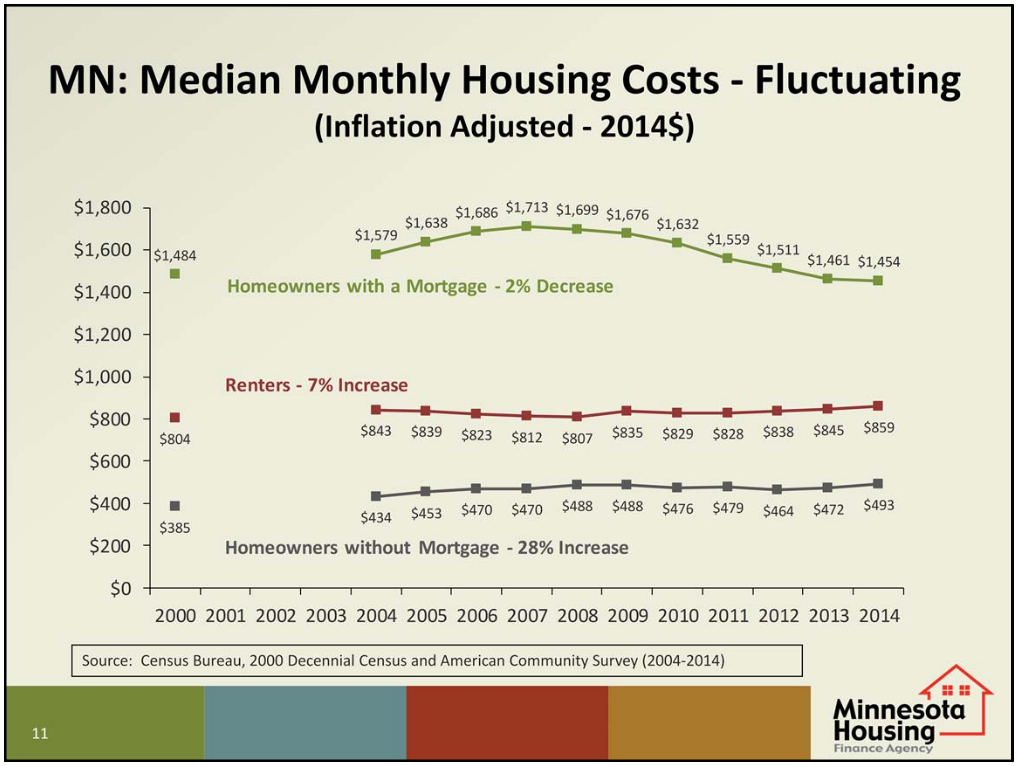
This map shows the percentage of lower-income households (annual income less than $50,000) that are cost burdened by county.

Key Points:

- The percentage varies from 34% to 68%.
- The highest percentages are generally in the metro area and surrounding communities, and the lowest percentages are generally in the western part of the state.
- Even the county with the lowest percentage has 34% of its households with housing costs that are unaffordable.

Implications:

- While the need for more affordable housing is substantial across the entire state, the level varies.



Cost burden is a function of a household's housing costs in relation to its income. To understand trends in cost-burden p, we need to understand the trends in each component. This graph shows the median monthly housing costs for renters and homeowners.

Key Points:

- Renters' costs increased by 7% since 2000 (after controlling for inflation). This masks shorter-term trends during that period. Statewide, the median rent rose from $804 per month in 2000 to $843 in 2004, fell to $807 in 2008, and has since risen to $859.

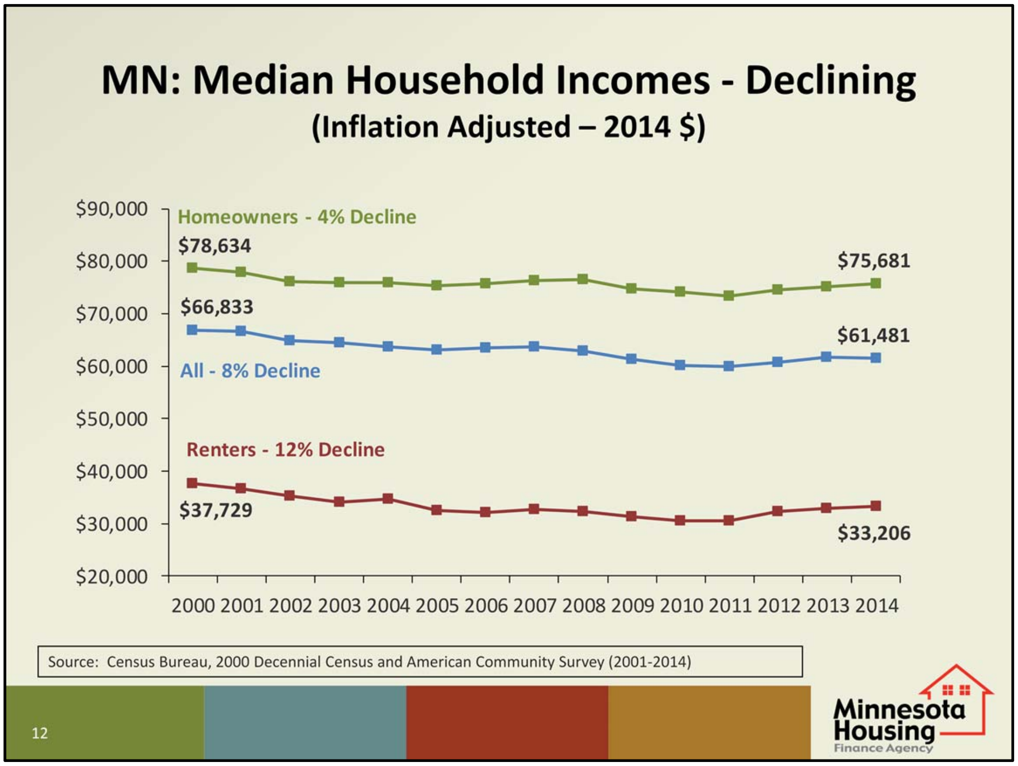
- Costs for homeowners with a mortgage decreased by 2%. Again, this masks an even more dramatic shift during that period. The median monthly cost increased from $1,484 in 2000 to $1,713 in 2007 and then fell to $1,454 by 2014. This trend mirrors a decline in home sale prices and interest rates, which we'll examine later. As a preview, home sales prices are now increasing after bottoming out in 2011/12. Interest rates are still at historically low levels.

- Costs for homeowners without a mortgage increased the most (28%). These higher costs reflect higher property taxes and insurance premiums. Many of these homeowners are seniors who have paid off their mortgages, which is an important point to keep in mind when examining housing for seniors.

Implications:

What can we do to reduce housing costs? Options include:

- Offering mortgages at the lowest interest rates possible.
- Increasing the supply of affordable rental housing.



Falling incomes are a key contributor to the rising rate of cost-burdened households.

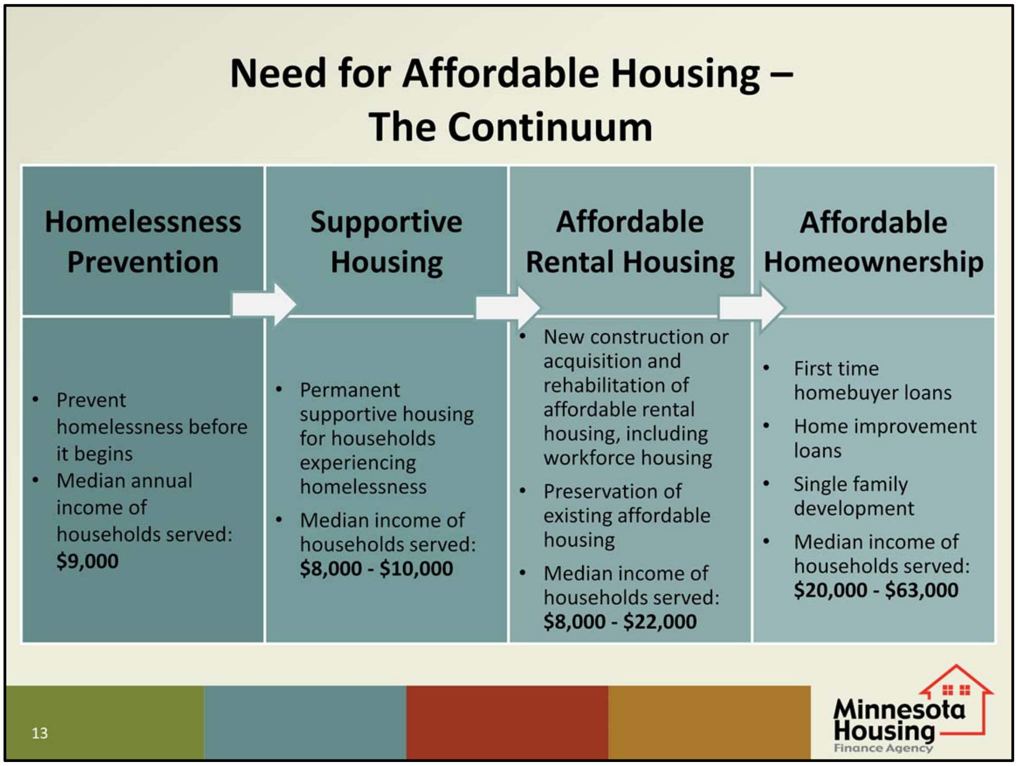
This graph shows the median household incomes over the past 15 years.

Key Points:

- Renter incomes fell 12% after controlling for inflation.
- Homeowner incomes fell 4%.
- With the strengthening economy, incomes increased in 2012 and 2013. However, 2014 had mixed results. After controlling for inflation, the median incomes of all households fell from $61,687 to 61,481.

Implications:

- While we are not an employment agency tasked with increasing household incomes, falling incomes play a key role in the environment in which we finance affordable housing, making the our task more challenging.
- Nevertheless, stable and affordable housing in location-efficient communities (providing access to transit, jobs, services, amenities, good schools, etc.) can contribute to the economic success of low- and moderate-income households.
- Will income increases in the future keep pace with housing costs?



As we assess the need for affordable housing, we must examine the continuum of needs that range from homeless prevention and supportive housing to affordable homeownership and home improvement loans.

We have programs to support the full continuum.

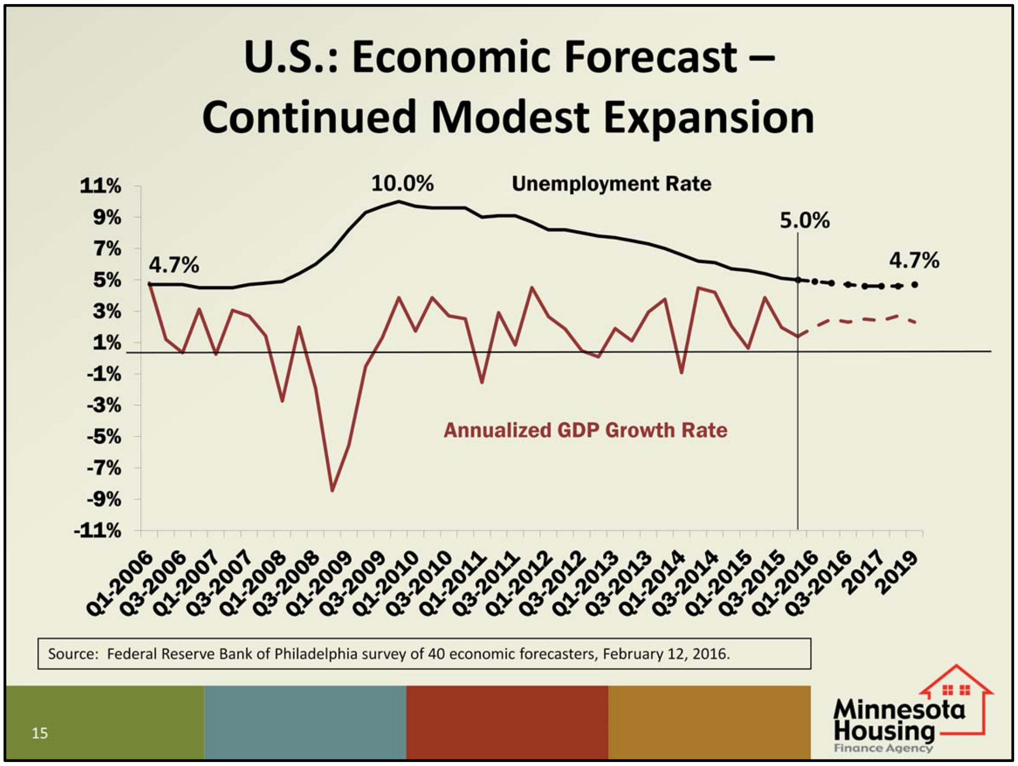
- In 2015, we provided financing that supported nearly 64,000 households. The highlights included:
  - 8,700 household receiving homeless prevention assistance
  - 30,000 households receiving rent assistance through our administration project-based Section 8 units
  - 2,300 rental units constructed or rehabilitated
  - 13,000 households receiving homeownership education
  - 4,100 home mortgages
  - 1,000 home improvement loans

Our homebuyer lending in 2015 was at or near historic levels. While we purchased 4,100 mortgages, we had net commitments of nearly 4,600 mortgages (commitments less cancellations). By the end of the year, we had put a lot of mortgages into the pipeline to be purchased. Prior to 2015, our highest lending level was 4,484 mortgages in 1995.

Theme/Trend #2

The Economy will Likely Continue to Grow Modestly

Minnesota Housing Finance Agency



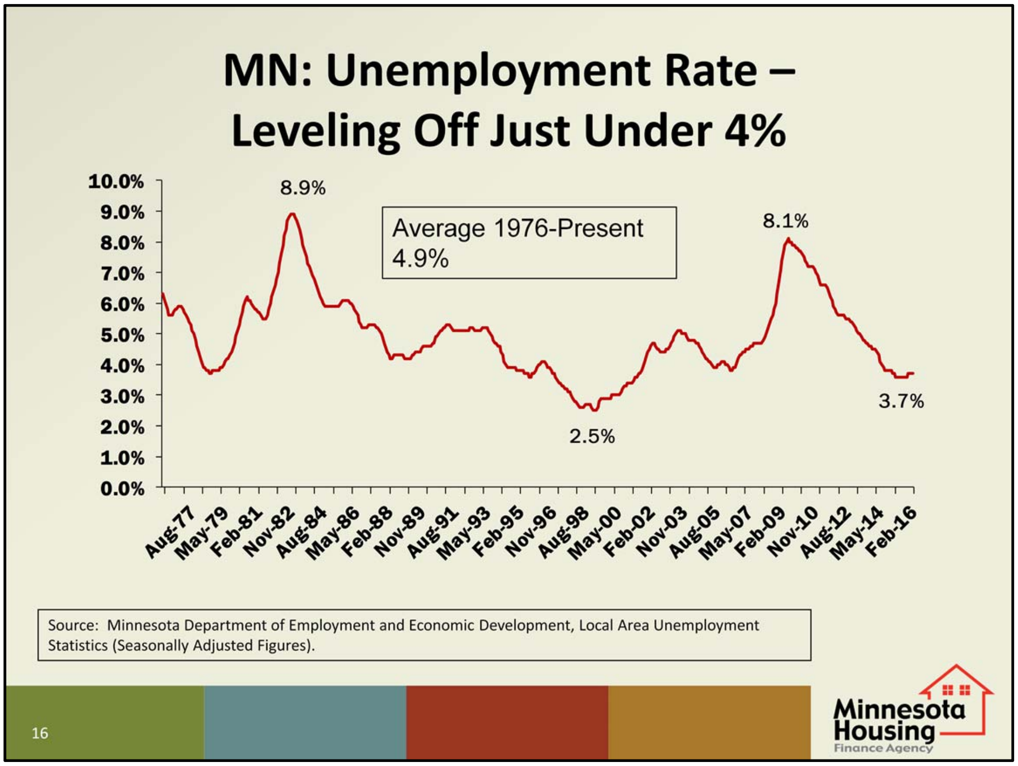
The state of economy plays a key role in the housing market. This graph shows the growth rate of the U.S. economy (as measured by Gross Domestic Product or GDP) and the unemployment rate. The solid lines on the left side are actual rates through the 4th quarter of 2015. The dashed lines on the right reflect a forecast based on a survey by the Philadelphia Federal Reserve Bank of 40 economic forecasters.

Key Points:

- The GDP bottomed out during the 4th quarter of 2008 with an annualized decline of 8.5%, which led to an unemployment rate reaching 10% in 2009.
- Since World War II, the average growth rate in GDP in the year following the end of a recession has been 6.8%. After the end of this most recent recession, the growth rate was only 3%, which was insufficient to quickly bring back the lost jobs. In addition, there has been inconsistent growth. Thus, the country had a slow recovery in employment.
- The forecast indicates that the U.S. unemployment rate will drop back below 5% in 2016 for the first time since the first quarter of 2008.

Implications:

- The economy should continue to recover modestly.
- A stronger economy typically (1) increases incomes, (2) increases the number of households being formed as people stop doubling up and living with their parents, and (3) reduces rental vacancy rates and months supply of homes for sale as additional households form, which leads to higher housing prices.
- Will the continued recovery be strong and widespread enough to benefit lower-income households?



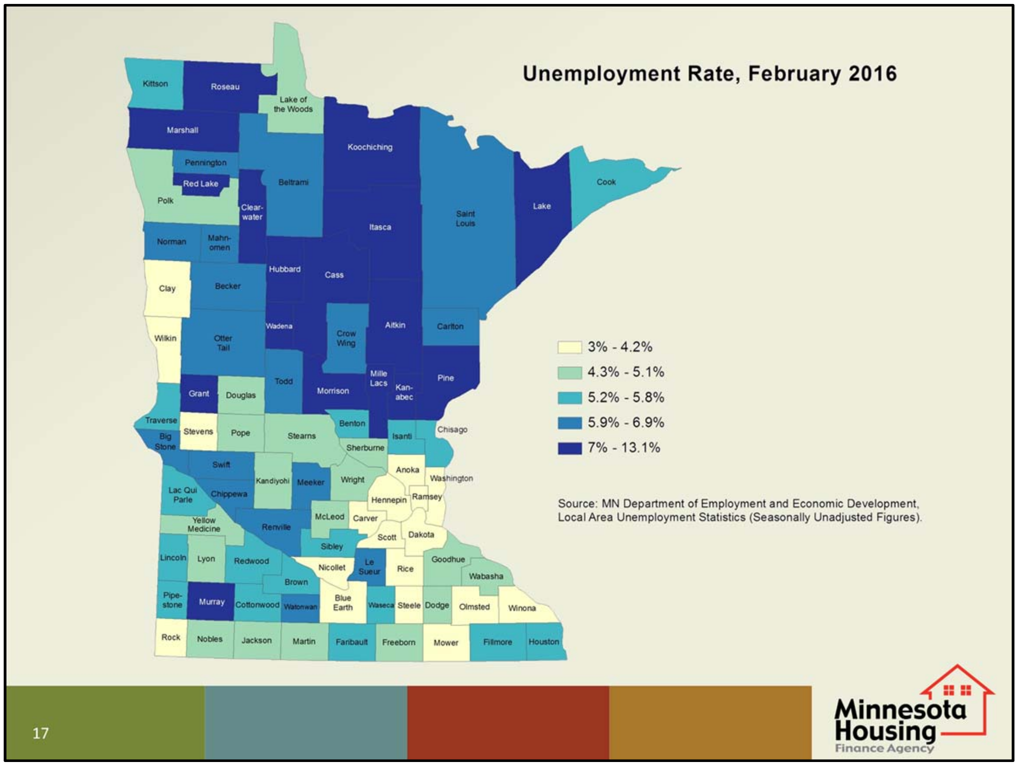
This graph shows the unemployment rate in Minnesota.

Key Points:

- The employment situation is better in Minnesota than nationally.
- While the peak during the Great Recession was 8.1%, the current rate is down to 3.7% and below the historical average.
- The unemployment rate has been between 3.6% and 3.9% since June of 2014, nearly two years.

Implications:

- How will income growth in Minnesota be affected by the state's unemployment rate leveling off just below 4%? Typically, job growth and low unemployment lead to higher wages.



This map shows the unemployment rate in each county.

Key Points:

- The unemployment picture varies quite dramatically around the state – ranging from 3.0% to 13.1%, with the highest rates in north central Minnesota and the lowest in the metro area and southern and western Minnesota.

Implications:

- Minnesota is not monolithic. Different parts of the state have very different economic conditions and housing needs.
- Some parts of the state have significant room for improvement.

Theme/Trend #3

The Housing Market will Likely Continue to Recover

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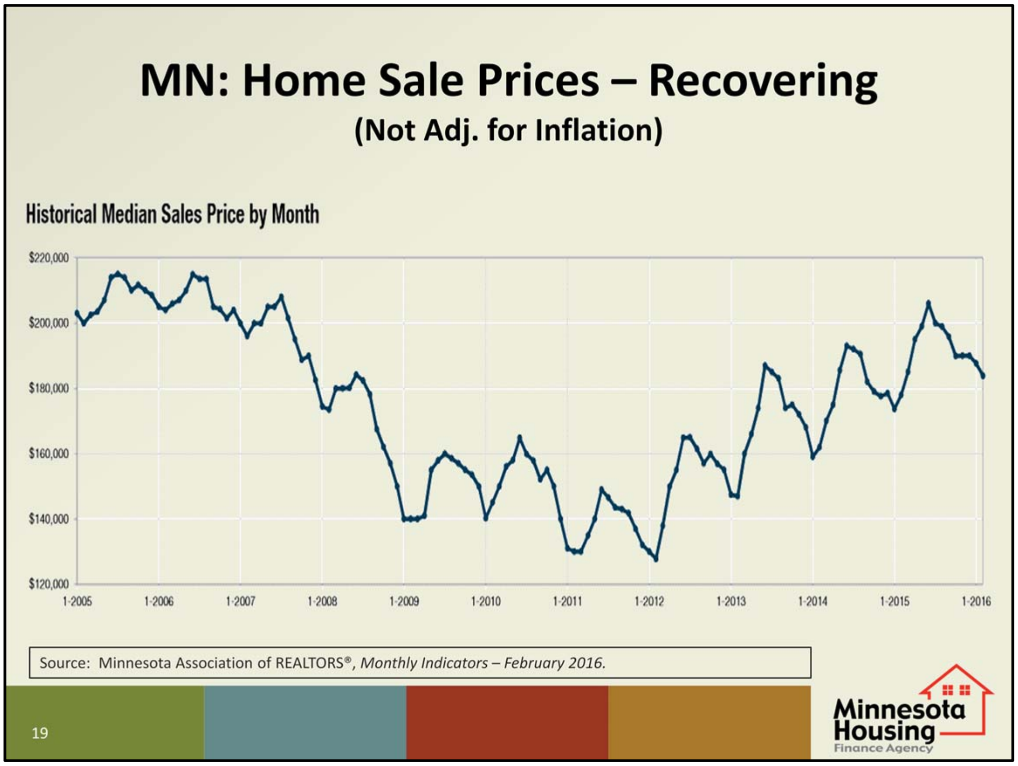


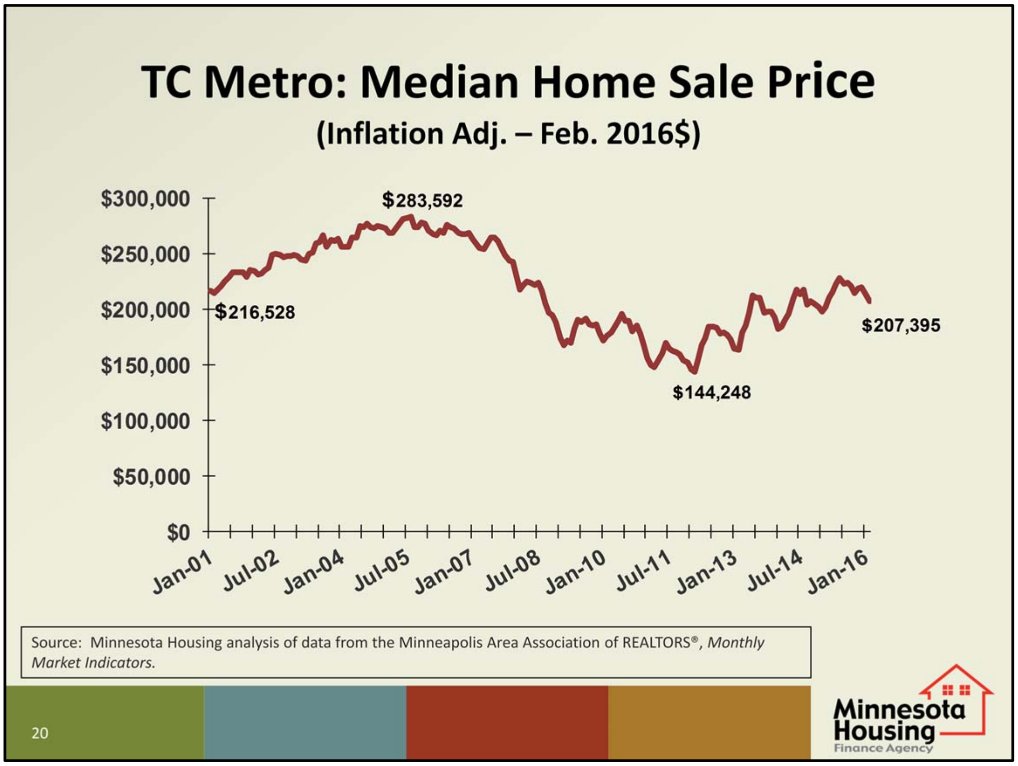
This graph shows the median sales price for homes in the entire state, not controlling for inflation.

Key Points:

- Statewide, prices dropped significantly from 2006 through 2009 and struggled through 2011, when they bottomed out.
- Prices have been recovering since 2011.

Implications:

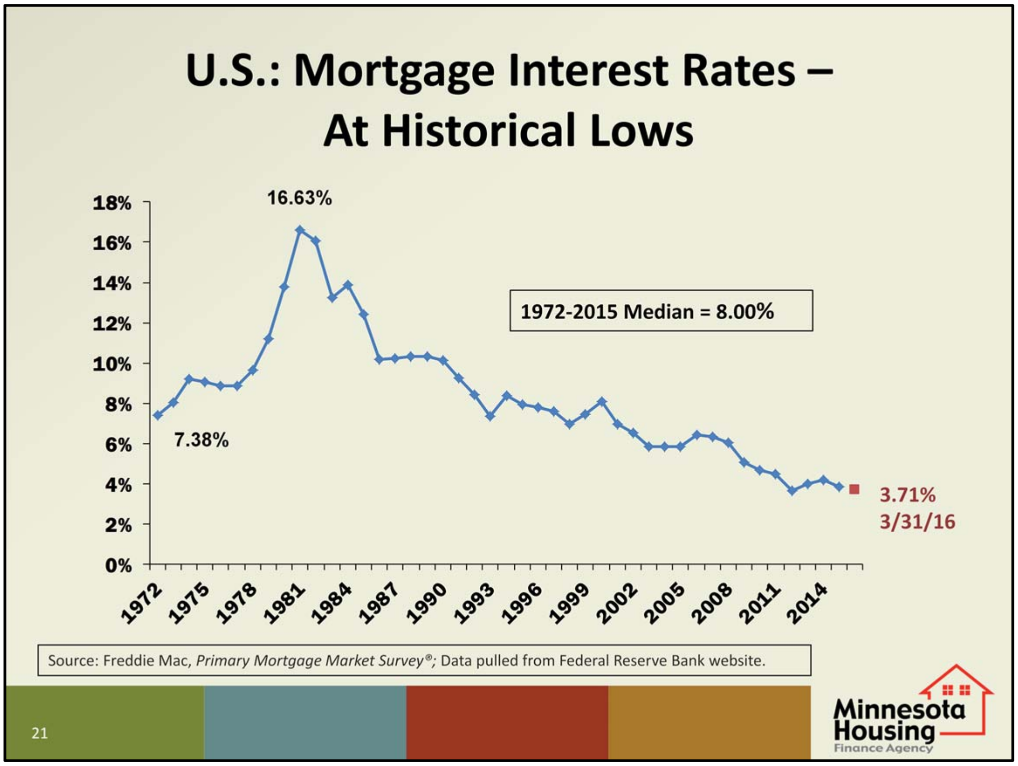
- On the one hand, rising property values help existing homeowners because they add equity and create wealth. This is particularly important for lower-income homeowners because their homes are often their primary asset.
- On the other hand, rising property values makes housing less affordable for people moving into homeownership.



This graph shows the median sales price for homes in the Twin Cities metro area. It is included as a separate graph because we have access to historical and electronic data from the Minneapolis Area Association of REALTORS. This allows us to carry out more detailed analyses, including controlling for inflation.

Key Points:

- The pattern in the Twin Cities metro area is similar to the statewide pattern.
- The data available for the metro area also shows the rapid increase in prices that created the housing bubble, and the rapid decline after the bubble burst.
- By controlling for inflation, this graph shows the longer way the market has to recover when factoring in the declining value of a dollar over time.



Interest rates also play a key role in housing costs and affordability. The very low interest rates over the last few years have increased affordability and helped the housing market recover by encouraging home buying.

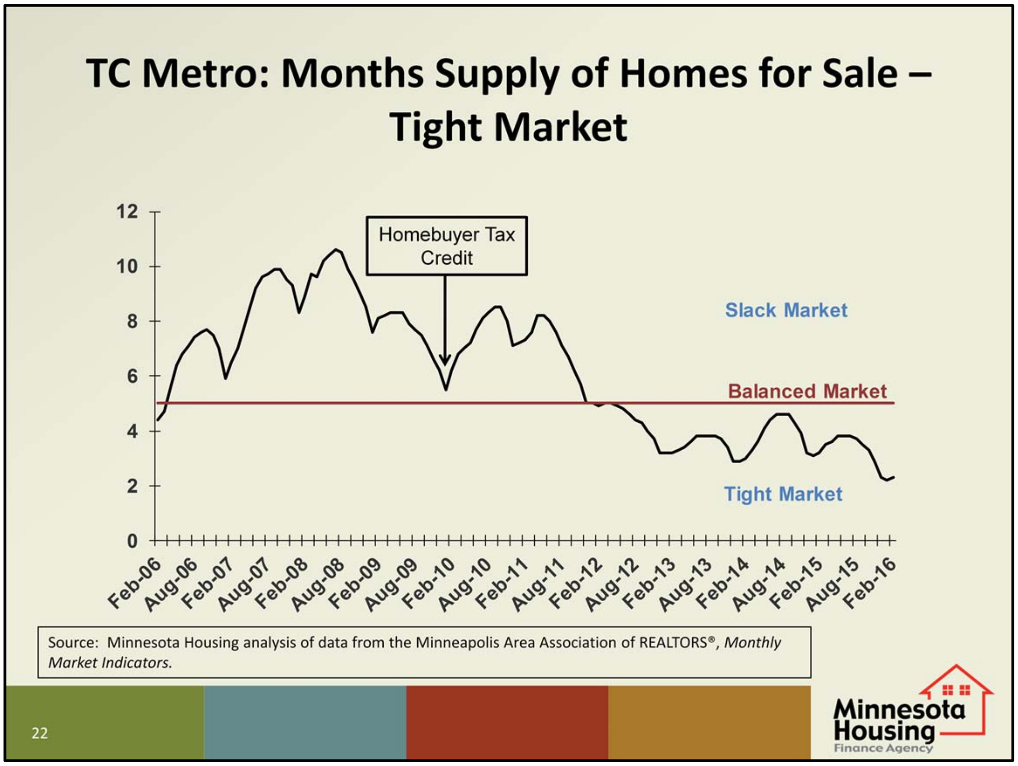
This graph shows mortgage interest rates since 1972.

Key Points:

- During this period, the median rate was 8.00%.
- The peak rate occurred in 1981 (16.63%).
- In recent years, the rates have reached their lowest levels, at or below 4%.

Implications:

The current rates, which are very low in historical terms, are making homeownership more affordable. This is a great time for people to buy a home.



As shown in an earlier slide, home prices bottomed out in 2011 and started to rise in 2012. One of the best indicators of home price trends is the months supply of homes for sale, which is a combination of the current inventory and how fast homes are selling. It measures how long it would take to clear the current inventory of homes for sale. Generally, if the inventory is more than five months, it is a slack or buyer's market with prices declining; if the inventory is less than five months, it is a tight or seller's market with prices rising.

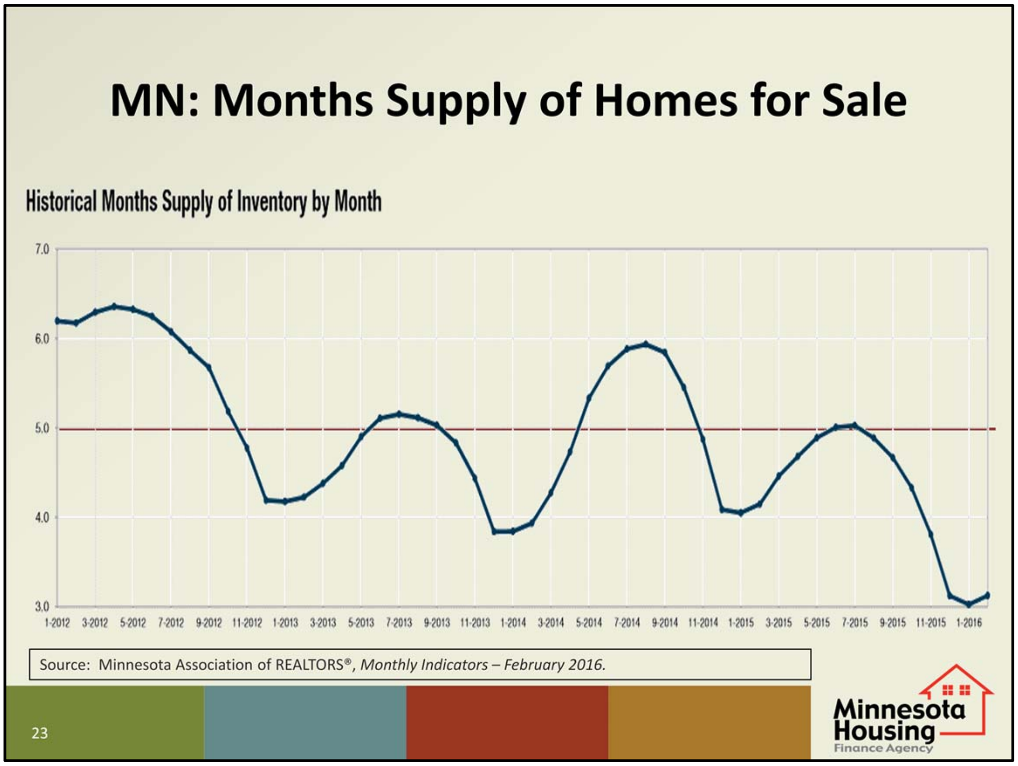
This graph shows the months supply of homes for sale since 2006 in the Twin Cities metro area.

Key Points:

- This graph starts when the housing market started to decline (prices peaked in 2006). In the first part of the graph, the months supply of homes for sale is above five.
- In January 2010, the inventory approached five months with the homebuyer tax credit (part of the federal government's stimulus plan to jump start the housing market).
- The inventory has been below five months since May of 2012, indicating a tight seller's market and rising prices.

Implications:

- As long as the inventory stays below five months, prices should continue to rise.
- In addition, the Federal Reserve Bank of Philadelphia's survey of professional forecasters indicates that the nationwide S&P/Case-Schiller home price index is expected to increase by 4.6% in 2016 and 4.0% in 2017. (Quarter 1 - 2016 forecast)



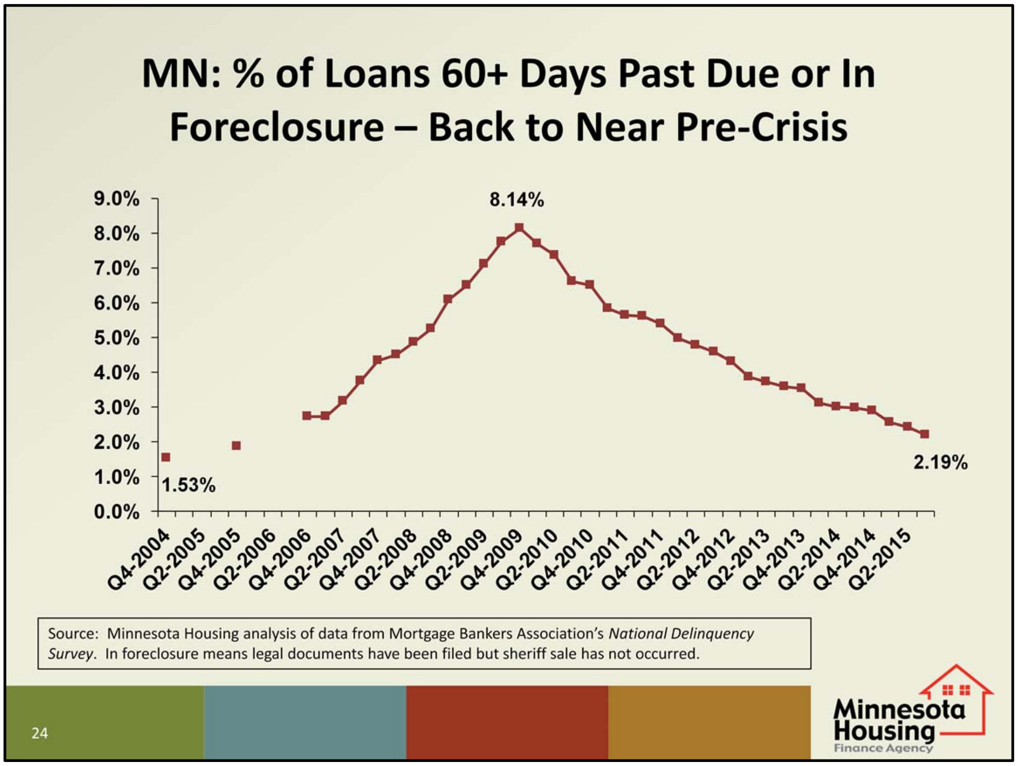
This graph is the same as the previous slide, but covers the entire state.

Key Points:

- Statewide, the recent inventory has been closer to five months of homes for sale than the inventory in the metro area.

Implications:

- In aggregate, Greater Minnesota may not see home price increases as large as the metro area, but there will be differences in individual markets.



The stronger economy and housing market have alleviated the foreclosure crisis.

This graph shows the share of mortgages approaching a sheriff sale in the foreclosure process. It captures loans that are 60 or more days past due, including loans that have started the foreclosure process (legal documents filed) but have not yet reached a sheriff sale.

Key Points:

- The rate of troubled loans has declined significantly in recent years (from 8.14% to 2.19% of loans), and it is getting close to pre-crisis levels. The rate was 1.53% in the 4th quarter of 2004.

Implications:

- With the return to more normal levels, we dropped addressing foreclosures as one of our strategic priorities.
- Nevertheless, foreclosure prevention is a very cost-effective strategy. Thus, prevention and foreclosure counseling will remain important programs.

MN: % of Mortgages Underwater – Much Lower

Year and Quarter	Share of MN Mortgages with Negative Equity
2009-Q4	16.6%
2010-Q4	15.9%
2011-Q4	18.4%
2012-Q4	16.4%
2013-Q1	17.5%
2013-Q2	12.6%
2013-Q3	9.6%
2013-Q4	9.9%
2014-Q1	9.7%
2014-Q2	7.8%
2014-Q3	7.2%
2014-Q4	8.1%
2015-Q1	7.9%
2015-Q2	5.9%
2015-Q3	5.6%
2015-Q4	6.1%
SOURCE: CoreLogic's Equity Reports – publicly available on the internet.	

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A key benefit of a recovering housing market and rising home values is fewer homeowners being underwater with their mortgages (owing more on their mortgage than their home is worth).

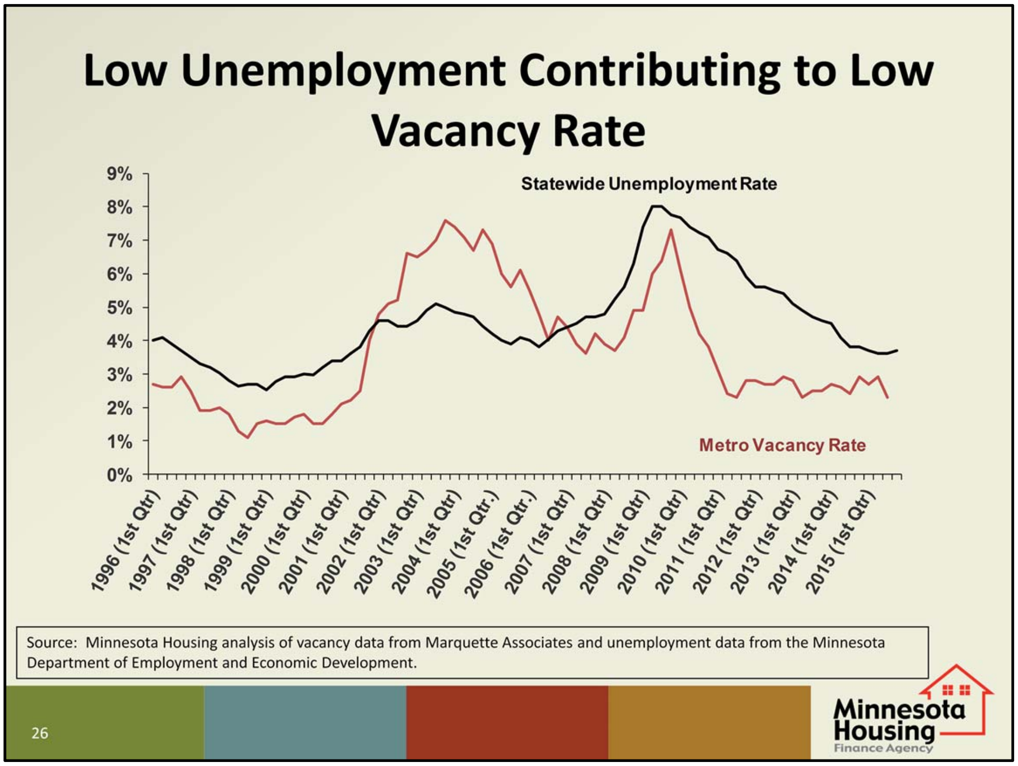
Key Points:

- After fluctuating between 16% and 18% between 2009 and 2012, the share of mortgages that are underwater declined to 5.6% by the 3rd quarter of 2015. This corresponds with the stronger market and price increases since 2012.

Implications:

With fewer underwater mortgages:

- The supply of homes for sale may increase as homeowners, who were previously trapped in their underwater mortgages, are able to put their homes on the market.
- It will be easier for homeowners to get home improvement loans because they will now have the equity in their homes to use as collateral. This will help maintain and improve the quality of the state's housing stock.
- Also, with improving values, homeowners have an incentive to maintain and improve their homes. They will be more likely to see a return on the investment, rather than a loss.



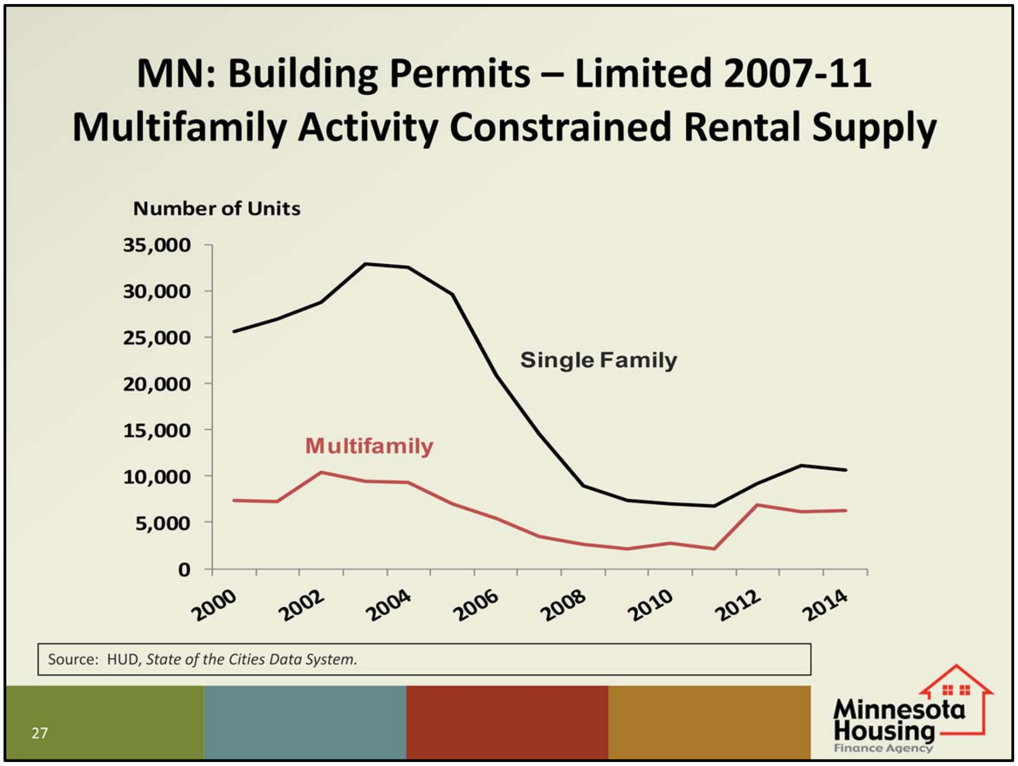
Switching to the rental market, this graph shows the relationship between unemployment and rental vacancy rates.

Key Points:

- When the unemployment rate is low, the vacancy rate is low. When unemployment is high, the vacancy rate is high. With employment struggles, households double up and young adults stay home with their parents.
- The recession initially led to high vacancy rates in 2009. However, in 2010 and 2011, the rate rapidly declined when unemployment was still above 6%. Two factors contributed to this divergence.
    - There was very little multifamily construction from 2007 through 2011, which limited the supply and decreased vacancies.
    - The homeownership rate declined between 2006 and 2012, which increased the demand for rentals and decreased vacancies.

Implications:

- With low vacancy rates, developers are now building more units, reflecting a recovery.
- Looking into the future, there are a few competing trends influencing the vacancy rate.
    - An improving economy and employment picture will reduce vacancies as more households are formed and rent.
    - While the homeownership rate had been declining (reflecting more renters), it appears to have stabilized and leveled off, putting less downward pressure on the vacancy rate.
    - New multifamily rental units under construction will increase the supply and decrease vacancies.



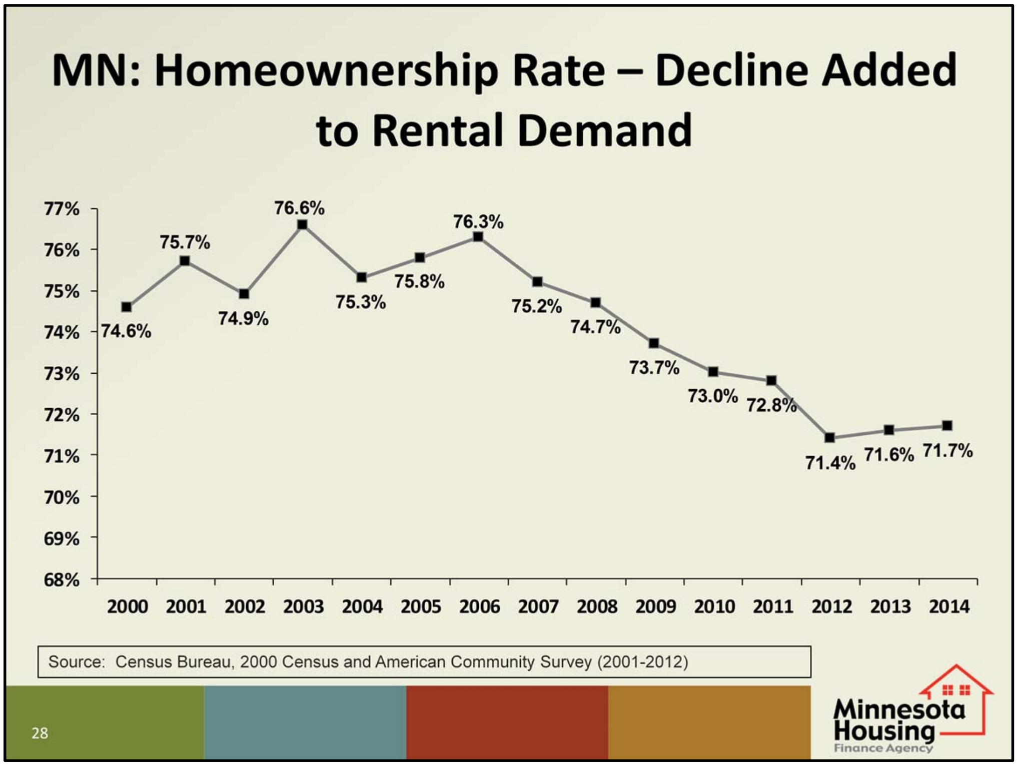
With the Great Recession and financial crisis, there was very little housing construction.

Key Points:

- The annual number of multifamily permits dropped from the 9,000-10,000 units in 2002-04 to the 2,000-3,000 units in 2008-11. The number increased to nearly 7,000 in 2012 and dropped to 6,200-6,300 units in 2013-14. Data for 2015 is not yet available.
- The decline in single-family permits was even larger.

Implications

- The low level of multifamily construction between 2007 and 2011 limited the number of units that are currently available, which decreased the rental vacancy rate.
- With the low vacancy rates and increased demand for new units, multifamily construction has picked up.



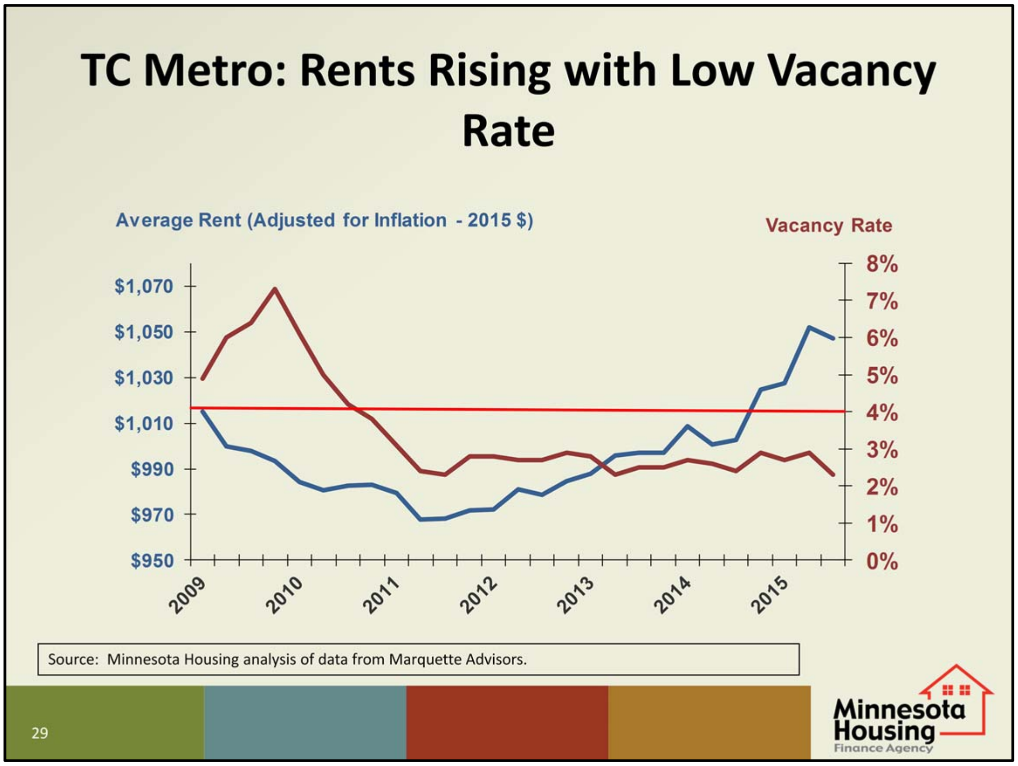
This graph shows the homeownership rate in Minnesota.

Key Points:

- The rate peaked in the 2003-06 period and declined through 2012.
- The rate increased for the first time in several years in 2013 and 2014.
- The American Community Survey is based on a sample of Minnesota households and has a margin of error. The large decrease in 2012 may have been an overstatement. Other data on household numbers in this report also show results for 2012 that seem out of line from what would be expected.

Implications:

- As mentioned earlier, the lower level of homeownership and higher level of renting in recent years has increased the demand for rental housing, which contributed to the low vacancy rates.



Previous graphs showed the effect of unemployment, construction, and the homeownership rate on vacancies. This graph shows the effect of vacancies on rents. A 5% vacancy rate reflects a balanced market, where renters are able to find apartments and landlords are able to rent their units relatively quickly. In a balance market, rents remain stable.

Key Points:

- When the vacancy rate is consistently below 4% (red horizontal line), rents generally rise because the supply is limited relative to demand.
- When the vacancy rate is consistently above 6%, rents generally fall because there is extra supply relative to demand.
- Since 2011, vacancies (maroon line) have been consistently below 4%, and rents have increased (blue line).

Implications:

- As long as vacancy rates stay below 4%, rents will likely rise.
- As discussed earlier, the vacancy rate will depend on the strength of the continuing economic recovery and job/household growth, the numbers of rental units added through new construction, and the homeownership rate (people renting versus owning).

Theme/Trend #4

With Modest Economic Growth, Incomes will Likely Struggle to Keep Pace with Expected Housing Cost Increases

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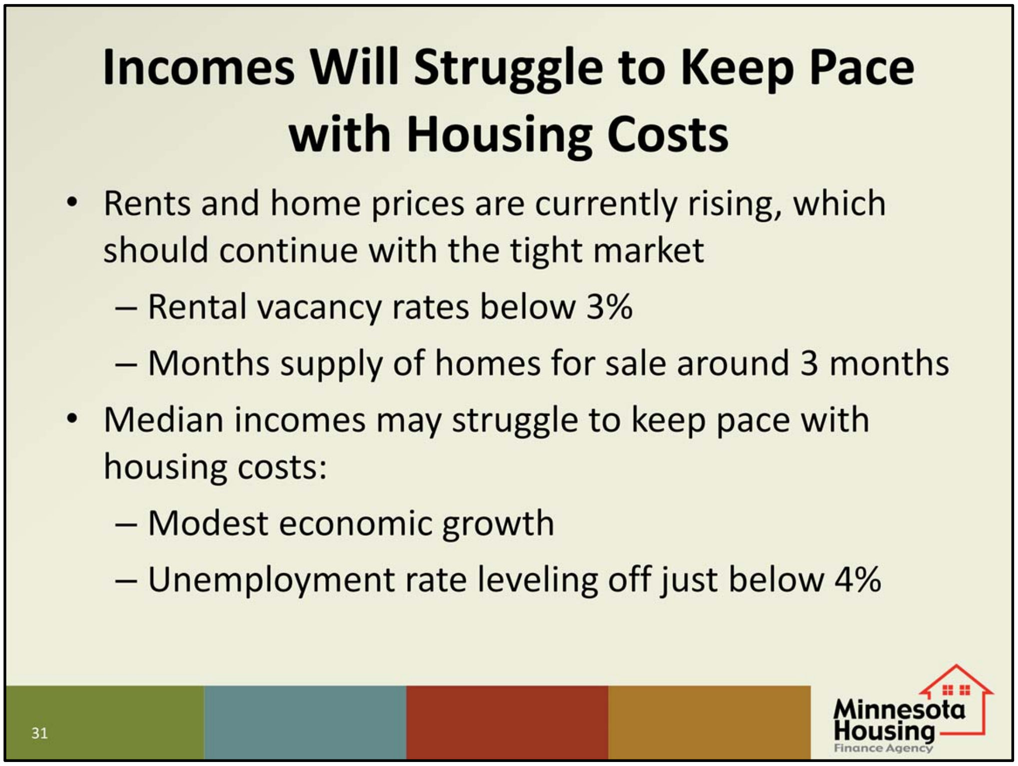

As the previous two sections have shown:

- With the improving economy and stronger/tight housing market, rents and home prices are likely to rise. The rental vacancy rate remains below 3%, and the months supply of homes for sale remains around 3 months.

- The economy and jobs are recovering, which should help increase incomes. However, this expansion needs to be strong and wide spread enough to benefit low- and moderate-income households, not just higher-income households. With the modest economic forecasts and unemployment in Minnesota leveling off just below 4%, incomes may struggle to keep pace with housing costs.

- The number of cost-burdened households in the future will depend on the strengths of these trends. If incomes do not keep pace with costs, the number will increase.

Theme/Trend #5

With a stronger economy, household formation is increasing, which is modestly increasing demand for housing

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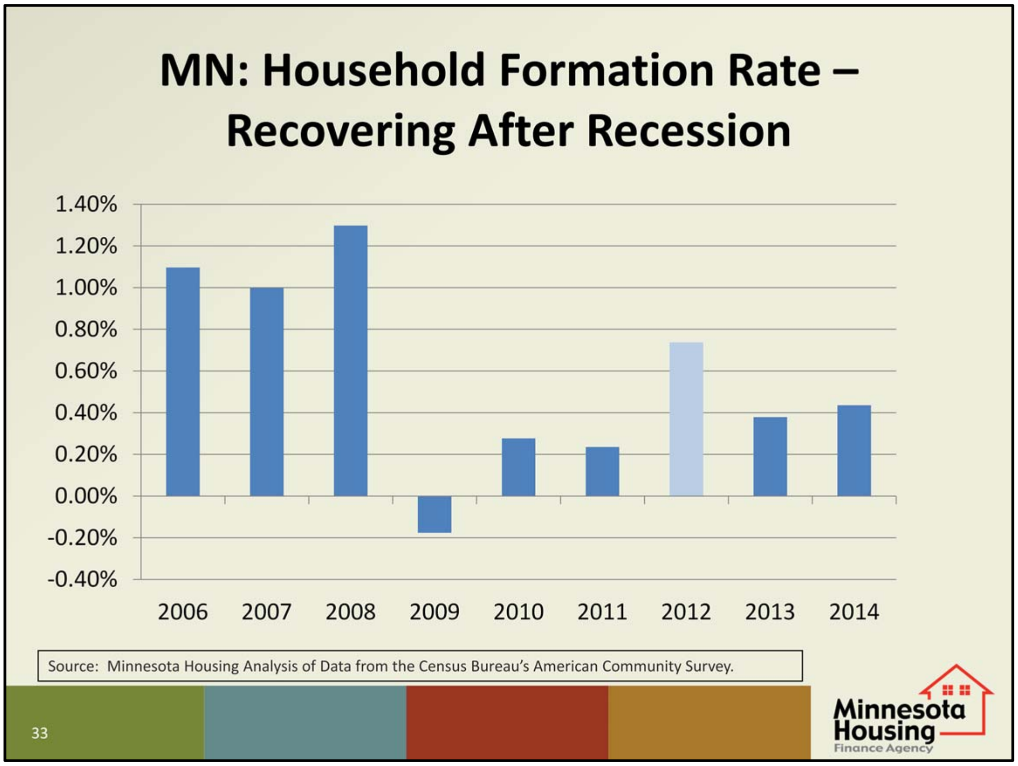
Minnesota Housing Finance Agency



The formation of new households creates the demand for new housing. This graph shows the percentage change in the number of households in Minnesota from the previous year.

Key Points:

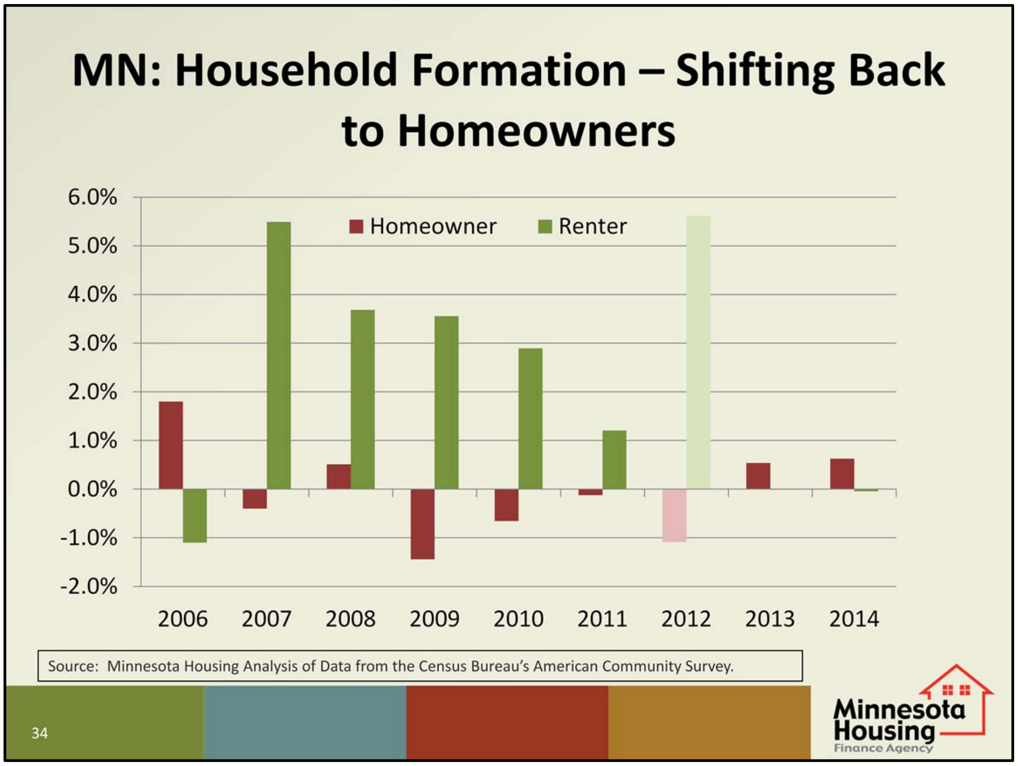
- Economic and employment growth drive household formation. When the economy is weak and people lose their jobs, existing households double up to share housing costs and young adults live with their parents, reducing the number of households. When the economy is strong, households stop doubling up and young adults venture out on their own, creating new households.

- The household formation rate has changed significantly over the last decade:
  - In 2006-08, the annual rate of household growth was just over 1%.
  - As the economy bottomed out during the recession, there was a lose of households in 2009.
  - In 2010-11, as the economy started to recover slowly, the number of households increased by about 0.25% each year.
  - In 2013-14, with the modestly stronger economy, the annual growth rate jumped to about 0.4%.

- We have highlighted 2012 with a lighter shade of blue, because we have concerns about the accuracy of the data from this year. As mentioned earlier, the American Community Survey is based on sample data with a margin of error, and the 2012 results seem out of line with the trends and results from other years.

Implications:

- Housing demand is increasing with the formation of additional households



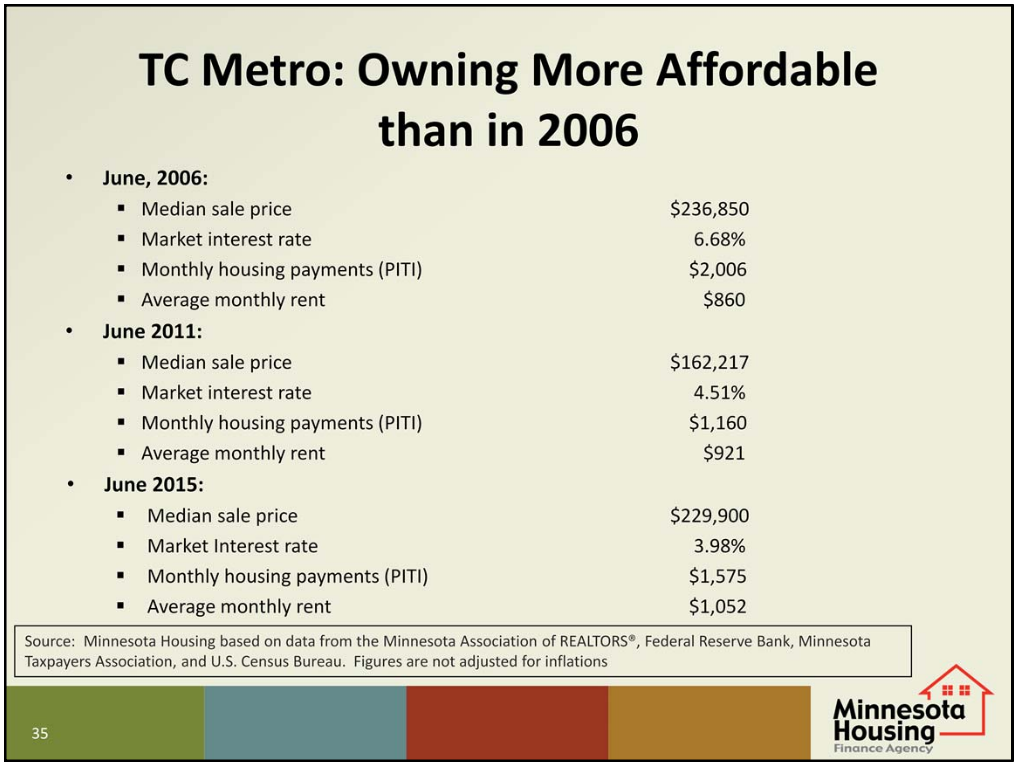
This graph shows the same household formation data as the previous graph but breaks it out between homeowners and renters, which have very different trends. When assessing this data, keep in mind that roughly 3 out of 4 Minnesota households own their homes. Homeowners play a larger role in the overall statewide trends than renters.

Key Points:

- In 2006, the economy was strong, and we were at the peak of the housing boom. As a result, Minnesota had strong growth in homeowner households and a decline in renter households.
- In 2007-08, signs of the housing crisis started to emerge, and there was a dramatic shift in household formation toward renting, rather than owning. There was little or no growth in homeowners .
- In 2009-11, the full effect of the housing crisis and recession was in place, and the number of homeowners declined significantly in 2009. The decline then got smaller with each year.
- In 2013-14, the number of homeowner households increased for the first time since 2008, while the number of renter households declined very slightly (see the tiny green slivers below the 0.0% line).

Implications:

- With the housing crisis and recession, there was a fundamental shift away from owning toward renting. However, since 2013, the trend is moving back to owning. The graph of Minnesota's homeownership rate on page 28 also shows this shift.
- While the homebuyer market is clearly recovering, our record lending in 2015, as outlined on page 13, seems far more robust than the overall market, which may reflect a demand for our products that is stronger than the overall market. We'll have to wait for 2015 data on household formation and market-wide lending to make this determination.



The affordability of owning a home is another factor that influences the homeownership rate.

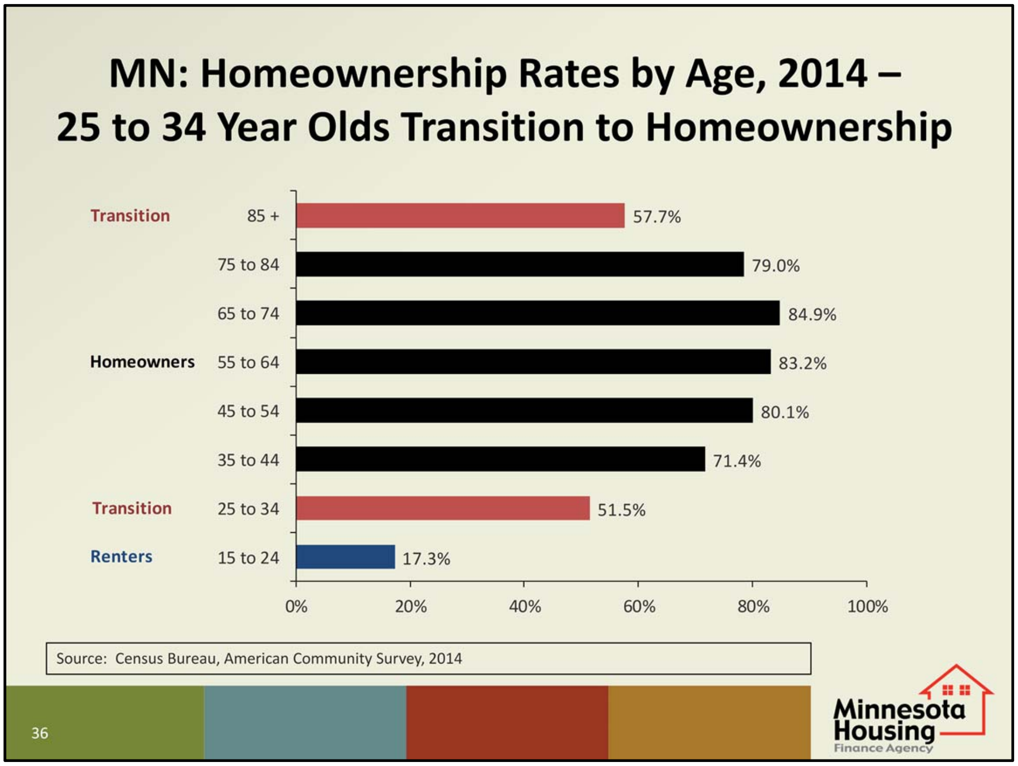
This slide shows the housing payment (principal, interest, taxes & insurance) for the median priced home in in June of 2006, 2011 and 2015 in the Twin Cities metro area. (The analysis examines the same month in each year because home sale prices fluctuate with the time of year, and we wanted consistency in the comparison. In addition, June is a prime home-buying month.)

Key Points:

- In 2006, the housing payment on a median priced home was $2,006 – more than twice the average rent for an apartment ($860).
- By 2011 (with much lower prices and interest rates), the housing payment on a median priced home was down to $1,160 – just a couple hundred dollars more than the average rent ($921).
- By 2015 (with higher prices but lower interest rates), the housing payment was up to $1,575 – about $500 more than the average rent ($1,052).

Implications:

- Owning a home became most affordable in 2011, which may have helped stabilize the homeownership rate after several years of declines.
- Buying a home is still more affordable than it was in 2006.
- This affordability should continue to induce more people to become homeowners.

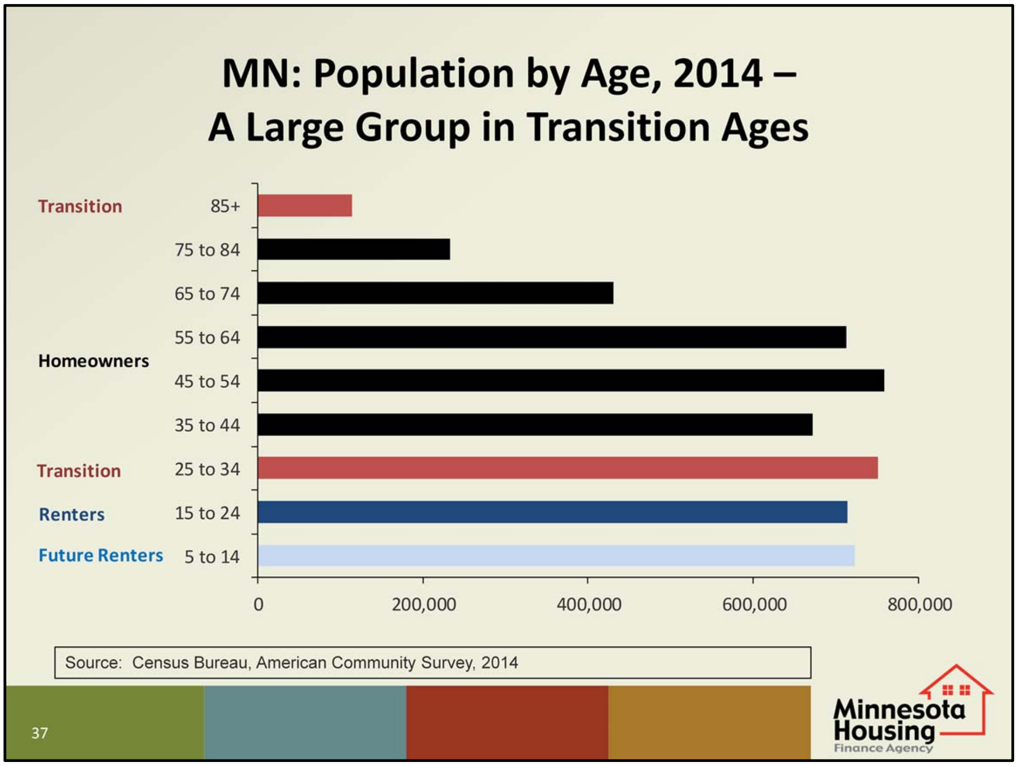


While the state of the homebuyer market (affordability of owning versus renting, economic stability, underwriting standards, and expectations of price appreciation/depreciation) plays a key role in the homeownership rate. A person's stage in life (often reflected by his or her age) plays another key role.

This graph shows the homeownership rate by age.

Key Points:

- Young single people who are in the less-stable and early stages of their careers and lives typically rent for affordability and flexibility reasons. (See ages 18-24 in this graph.)
- As families form and careers are established, households look for stability and transition to homeownership. (See ages 25 to 34 in this graph. The transition continues but to a lesser extent for 35 to 44 year olds.)
- From ages 45 to 74, the vast majority of Minnesota households are in the homeownership stage of life.
- After households go through the initial phase of retirement, age, and start to face the struggles of independent living, they start to transition back to renting.



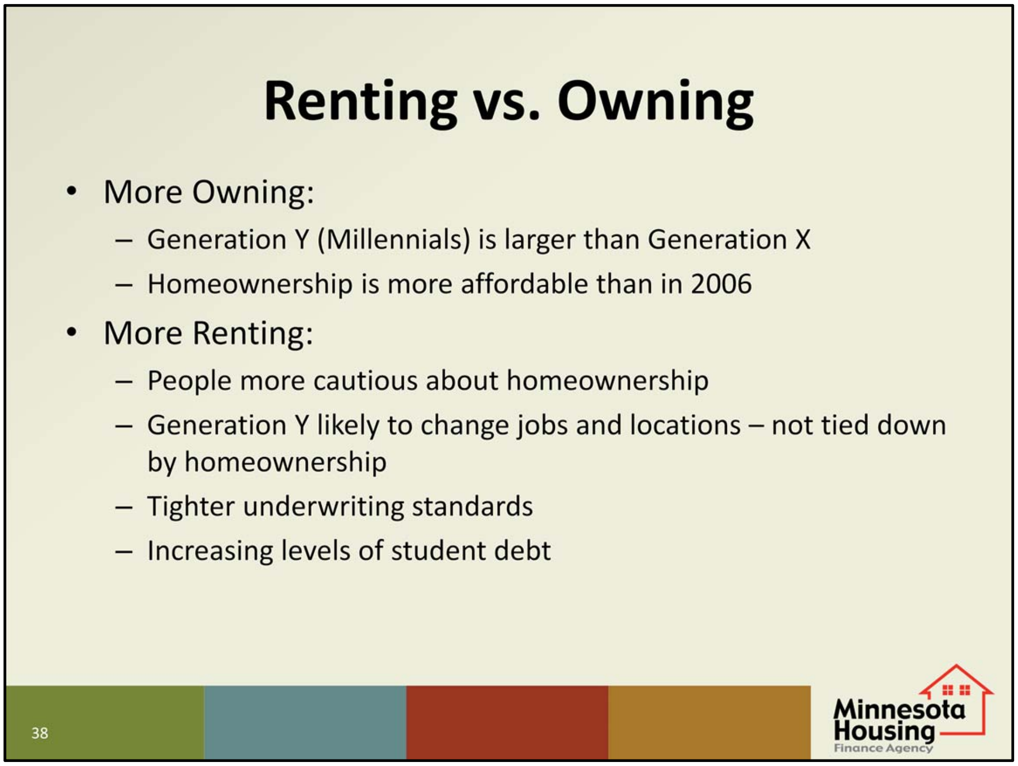
This graph shows the break out of Minnesota's 2014 population by age and the renter/owner phases.

Key Points:

- Demographics played a role in the decline in the homeownership rate.
  - The largest age cohort is 45 to 54 year olds. From 2005 to 2014, this group turned 45, the age when the homeownership rate stops seeing large increases. This large group stopped driving the homeownership rate up.
  - The smallest working-age cohort is 35-44 year olds (largely representing Generation X). Over the last 10 years, this group was setting into the initial homeowner phase of live, and its small size limited the growth in homeownership.
- The second largest age cohort is 25 to 34 years olds (largely representing Generation Y or Millennials). This large group is at the prime age for first-time homebuyers, which should increase homeownership in the coming years.

Implications:

- Understanding the home-buying needs of the Millennial generation will be a critical strategy going forward.



What factors are influencing the homeownership rate?

More Owning:

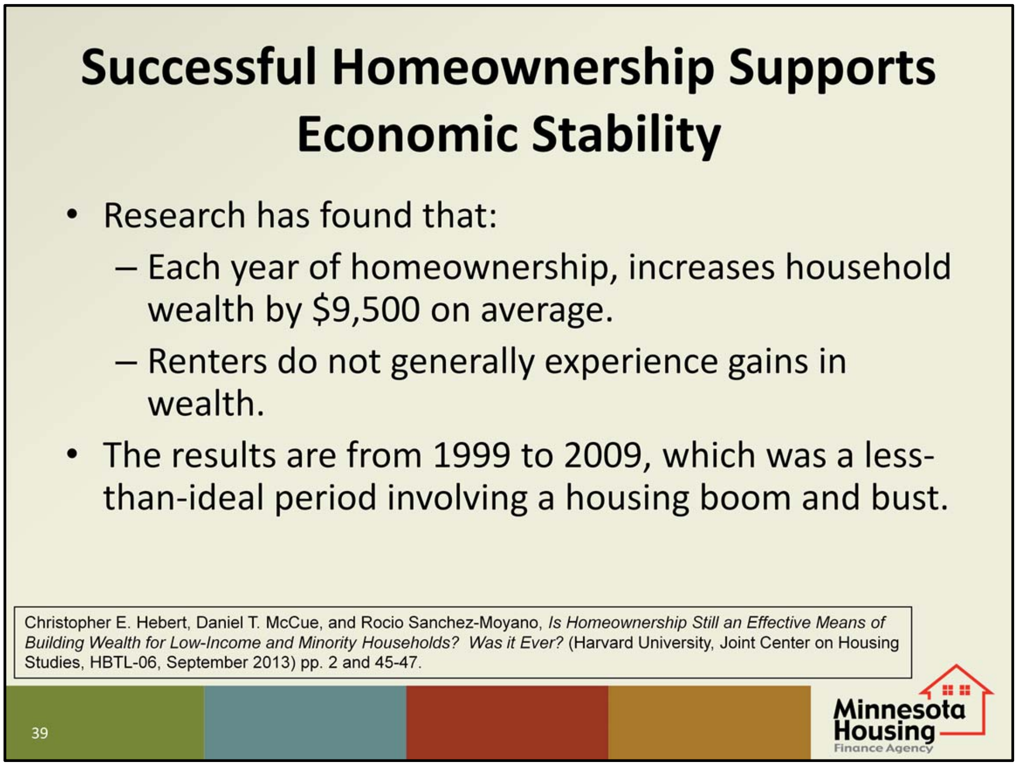
- As just discussed, the Millennial generation (aka, Generation Y) is large and starting to transition into the homeowner phase of life.
- Homes are more affordable today than in 2006. Home prices are increasing, but interest rates are at historically low levels.
- The economy is expected to expand modestly. When families experience economic stability, homeownership is more likely.

More Renting:

- After the housing and foreclosure crisis, people are more cautious about homeownership.
- Even though Generation Y is starting to move into the traditional home-buying age group, they may delay this step. They may want the flexibility to change jobs and locations and not be tied down by ownership.
- Tighter underwriting standards are limiting homeownership.
- Student debt levels are limiting homeownership. Underwriting standards include stricter debt-to-income requirements to qualify for a mortgage. For example, debt payments (including mortgage, student loans, car loans etc.) typically cannot exceed 43% of income.

Implications:

The difficulty in getting a loan makes our lending programs more important.



Homeownership is a powerful tool.

- While research has found that renters generally have very limited gains in wealth, successful homeowners see large increases in their wealth, even in tumultuous economic times.
- For many lower-income homeowners, their home is their primary source of wealth.
- One of our core functions is to promote and support successful homeownership.

Theme/Trend #6

More Affordable Housing is Needed in Areas with a Growing Workforce

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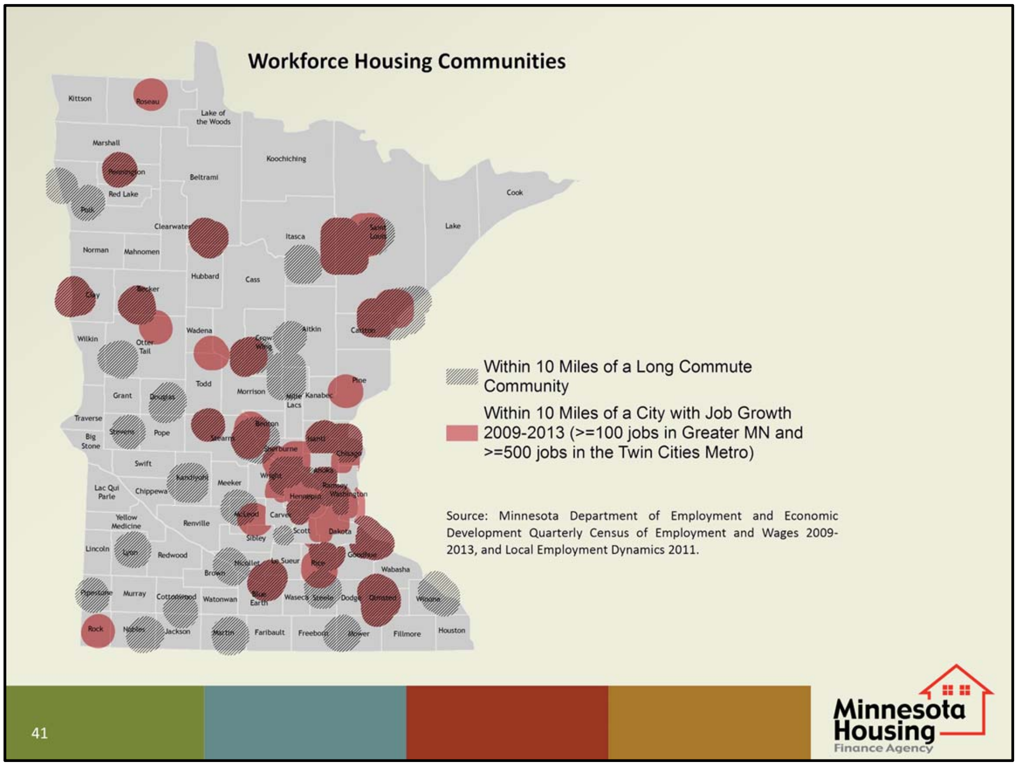

With an growing economy, workforce housing has become an issue.

To assess the need, we identified in 2015 77 communities in Minnesota with workforce housing needs.

Key Points:

- The cities/townships in maroon have at least 2,000 jobs and significant job growth over a five year period. To accommodate this growth, additional housing is needed
- The cities/townships with the hatched lines have at least 15% of the workforce commuting at least 30 miles into their community for their jobs. The long commute may signify a lack of workforce housing in these communities.
- To account for a reasonable commute, the map adds a 10 miles commute shed around Greater Minnesota communities and a 5 mile commute shed around metro area communities.

Implications:

- There are workforce housing communities across the state.

More Rental Housing is Needed in Workforce Housing Communities

- Rental vacancy rate below 3% across much of MN – reflecting a shortage
- In 77 workforce housing communities (2015 analysis):
  - 4,500 to 7,500 additional units are need to bring the vacancy rate up to 4%-5%
  - Create a more balanced rental market

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How many rental units are needed to address the workforce housing needs in these communities?

- In the 77 workforce housing communities, we estimated:
  - The vacancy rate to be about 2.5% in those communities.
  - That 4,500 to 7,500 additional rental units were needed to raise the vacancy rate from 2.5% to 4% - 5% (reflecting a more balanced market)
- This estimate had a few caveats. The estimate:
  - Only addressed the current shortage rental housing,
  - Only applied to properties with 5+ units, and excluded rental properties with 1-4 units,
  - Did not account for increasing demand resulting from job and household growth, and
  - Did not account for units that were under construction, but not ready for occupancy.

Theme/Trend #7

Minnesota is Becoming More Diverse, but Disparities in Homeownership are Significant

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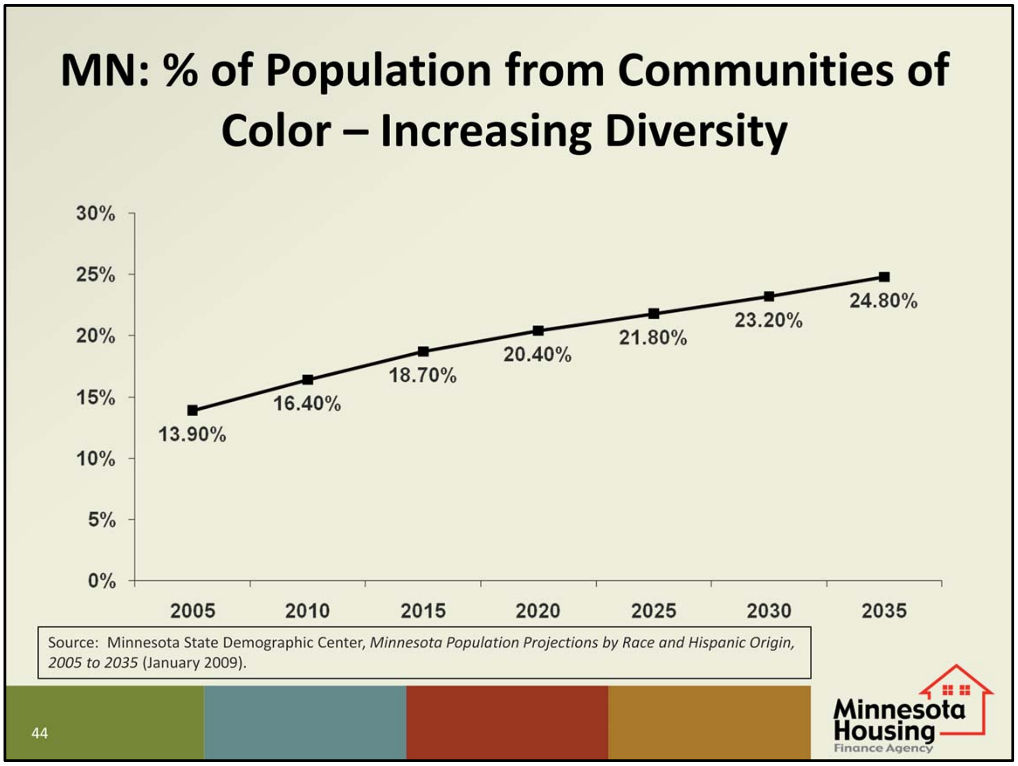
Finance Agency



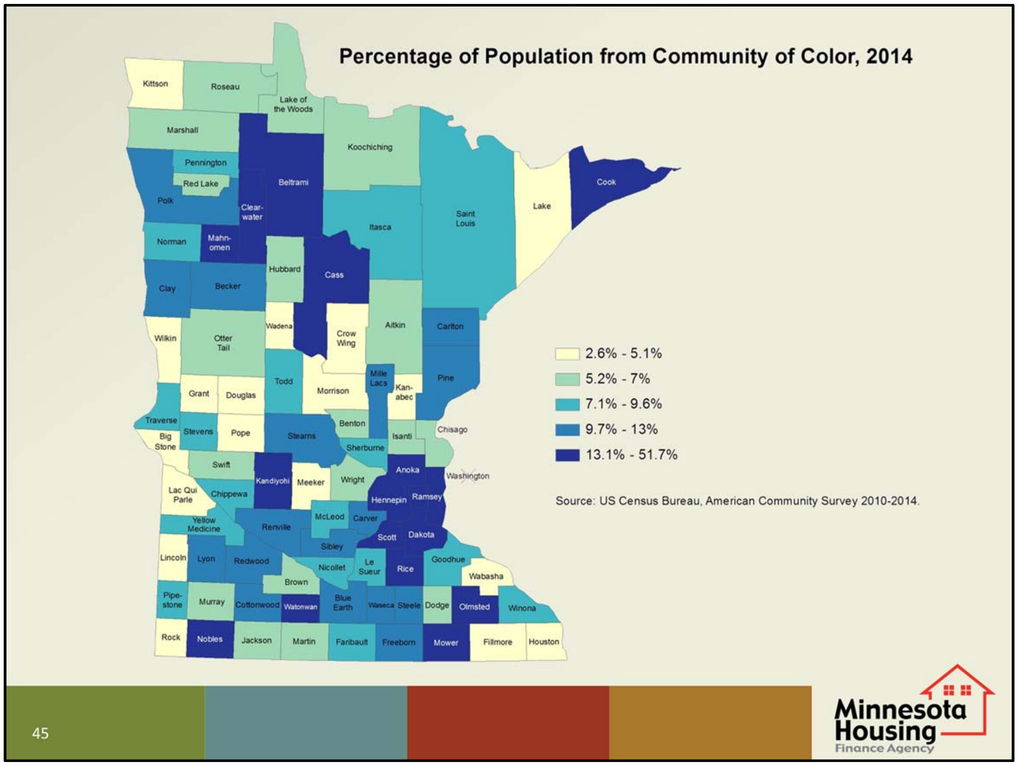
This graph shows a projection from the State Demographer's Office about the increasing share of the state's population that is from a community of color or of Hispanic ethnicity.

Key Points:

- By 2035, roughly 25% of the state's population will be of color or Hispanic ethnicity.

Implications:

- The housing needs of people of color or Hispanic ethnicity will become more predominant as they will account for a larger share of the population.



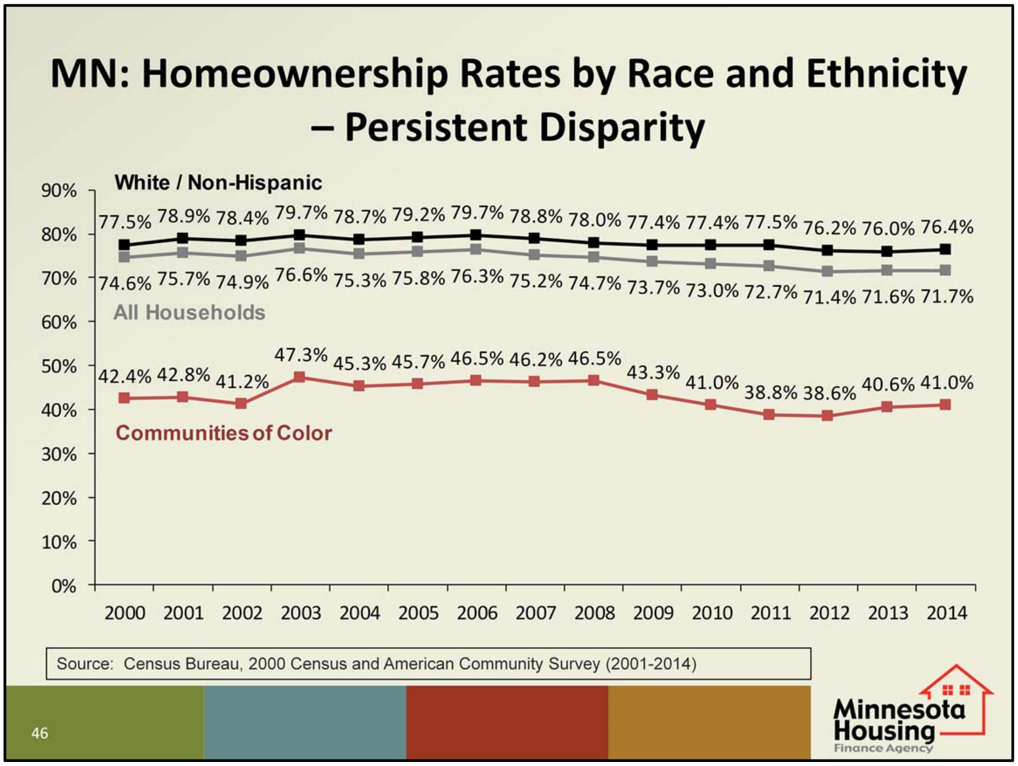
As shown in the map, people of color or Hispanic ethnicity are not evenly distributed across the state.

Key Points:

- The percentage in each county varies from 2.6% to 51.7% of the population.

Implications:

- The housing needs of people from communities of color play a critical role in some counties and will play an increasing role across the state.



This graph compares the homeownership rates of households of color or Hispanic ethnicity with white/non-Hispanic households.

Key Points:

- Minnesota's 35.4 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the third largest in the country.

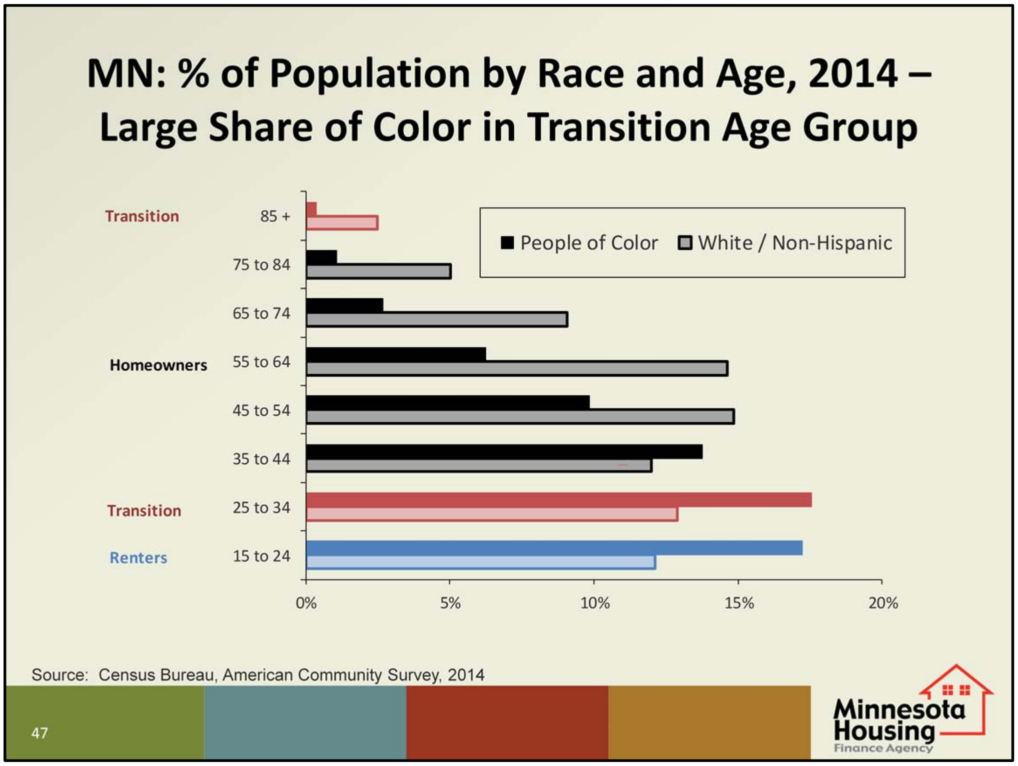
Implications:

- We have estimated that just over 25% of renter households that are income eligible for our mortgage programs are of color or Hispanic ethnicity. If we want to address the homeownership gap, the share of our loans going to households of color or Hispanic ethnicity should be in this range. This is an imperfect standard because it does not take into account people who may or may not be eligible for a mortgage because of low credits scores, high debt-to-income ratios, or other underwriting criteria. Nevertheless, it is an informative benchmark.

- Between 2009 and 2015, our actual percentage has been between 23% and 33%.

- For the first two quarters of federal fiscal year 2016, 33.6% of our first-time homebuyer loans went to households of color or Hispanic ethnicity.

- In contrast, the share of mortgages in the overall Minnesota market going to households of color or Hispanic ethnicity ranged between 9% and 11% during that time.



This graph shows the share of the Minnesota population in various age groups, broken out between communities of color/Hispanic ethnicity (solid bars) and the white/non-Hispanic population (lightly-shaded bars). In addition, the bars are color coded to reflect the housing phase of each age group (renter, transition, and homeowner).

Key Points:

- The largest age group for people of color is 25 to 34 year olds, accounting for 18% percent of the population of color (see the solid red bar near the bottom). The size of each older age group gets smaller and smaller (see the successive solid bars moving up the graph).
- In contrast, the largest white/non-Hispanic age group is the 45-54 year olds (see the gray bar near the middle), accounting for 15% of the white/non-Hispanic population.
- The largest community of color age group is in the transition to homeownership phase of life, while the largest white/non-Hispanic age group is in the homeowner phase.

Implications:

- While households of color or Hispanic Ethnicity are far more likely to be renters, they comprise a sizable share of the population that will that typically transitions to homeownership (25 to 34 year olds).
- Focusing on households of color or Hispanic ethnicity is one of our strategic priorities.

Theme/Trend #8

For the First Time, the Number of People Experiencing Homelessness Had a Significant Decline in 2015

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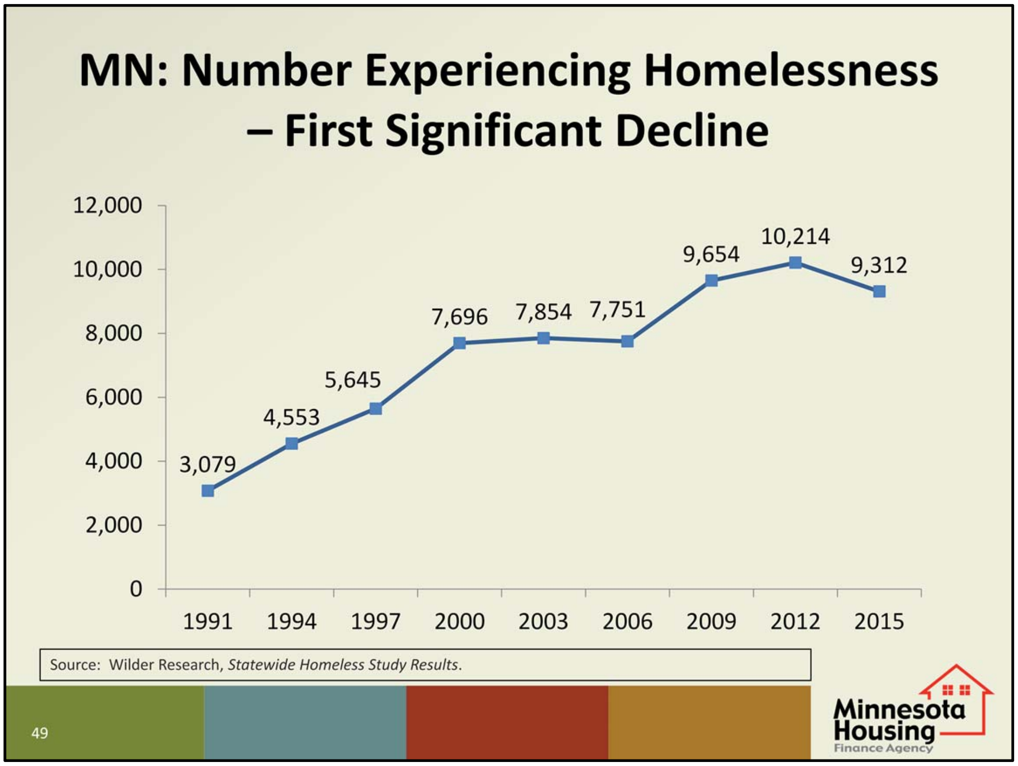


This graph shows the number of homeless on a given night in Minnesota.

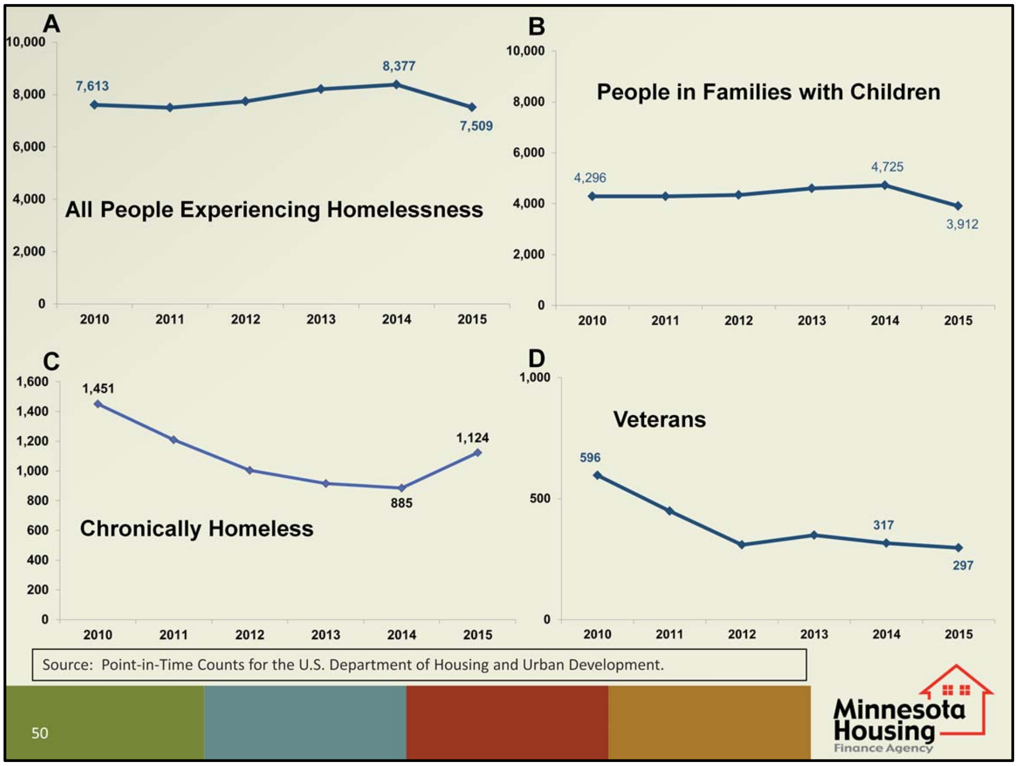
Key Points:

- After increasing for two decades, the number of people experiencing homelessness had its first significant decline in 2015.
- After leveling off in 2003 and 2006, the state experienced a large increase with the Great Recession.

Implications:

We have done significant work to address homelessness.

- We played a lead role in completing the state's Business Plan to End Long-Term Homelessness, which financed over 4,000 supportive housing opportunities for households experiencing long-term homelessness.
- We have played a lead role in reconstituting the Minnesota Interagency Council on Homelessness (11 state agencies) and developing the state's current Plan to Prevent and End Homelessness.
- The current plan has the goal of creating 5,000 new affordable housing opportunities by 2020.



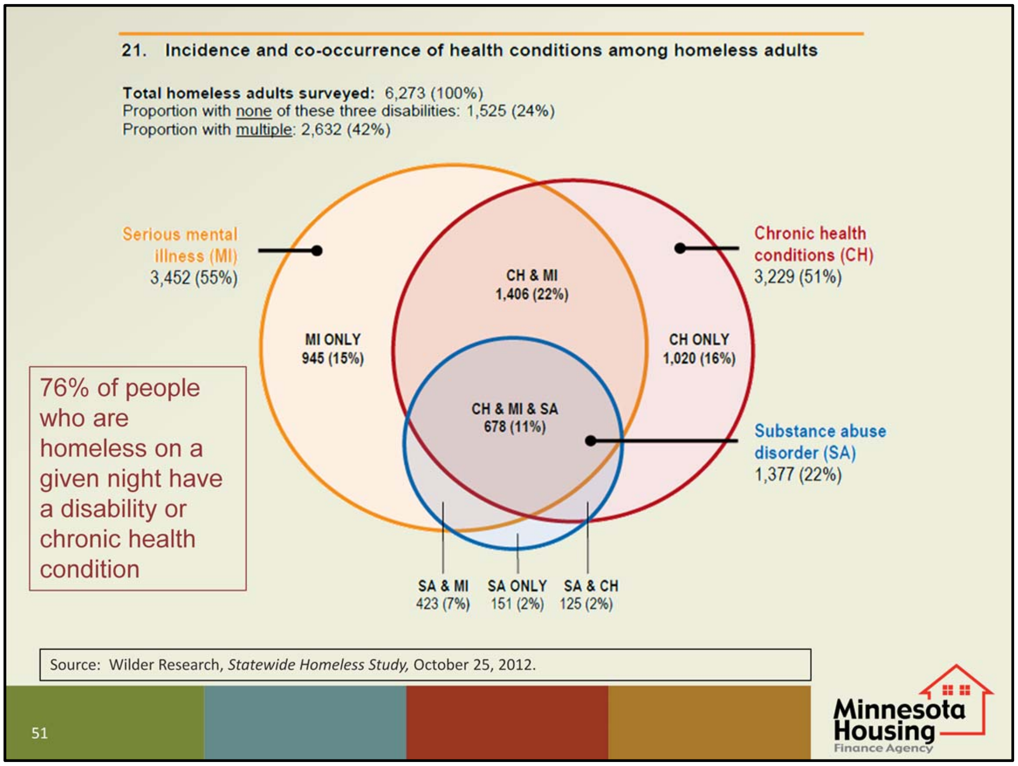
These graphs show trends in the number of people experiencing homelessness by sub-populations. These numbers come from HUD's Point-in-Time count, which is a different source and provides slightly lower numbers than Wilder Research estimates in the previous graph. These numbers have the advantage of being produced annually.

Key Points:

- Graph A: While the count of people experiencing homelessness is lower with HUD's Point-in-Time count than the Wilder data, the overall trend is consistent between the two sources – nearly a 10% decline in 2015 after a period of increases.
- Graph B: Because over half of people experiencing homelessness are in families with children, the trend line for people in these families largely drives the overall trend shown in graph A.
- Graph C: The number of people who experience chronic homelessness declined for the last several years, but increased in 2015. With the nearly 690 units of supportive housing for individuals and families experiencing homelessness that we funded in the fall of 2014 now coming online, this number should start declining again.
- Graph D: The number of veterans experiencing homeless is on a clear downward trajectory.

Implications:

- The state Plan to Prevent and End Homelessness will address all types of homelessness, with the goal of bending the trend line for all the graphs significantly downward.



Serving people with disabilities and chronic health conditions is a key part of addressing homelessness. This diagram shows the number and share of homeless adults with various conditions and how the incidence of those conditions overlap for people experiencing homelessness one night in October 2012. Updated data from the 2015 Wilder Homeless Survey has been collected but is still being analyzed.

Key Points:

- Of the 6,273 homeless adults who were surveyed, 4,748 (76%) had at least one of the following conditions: (1) serious mental illness, (2) chronic health condition, or (3) substance abuse disorder.
- 42% have two or more conditions.
- 11% were experiencing all three conditions.

Implications:

- Homelessness is more than just a housing issue.
- Providing housing with service linkages is a critical strategy.
- We need to continue and strengthen our partnerships.

Theme/Trend #9

The Aging Baby Boom Generation will Create New Housing Needs and Challenges

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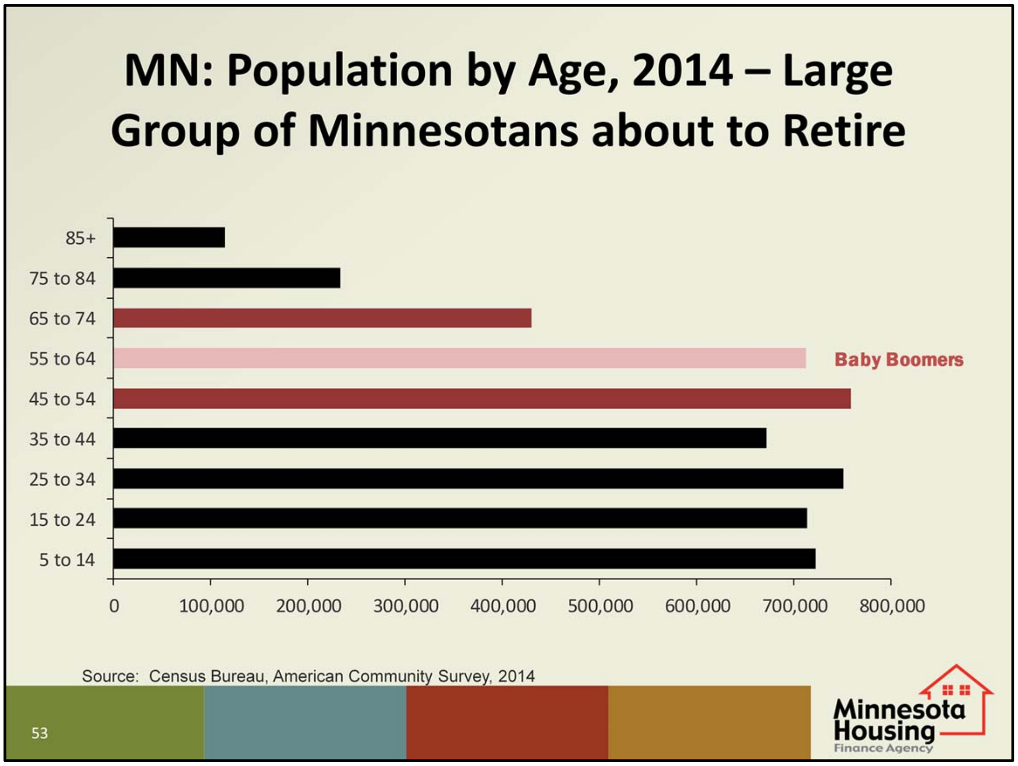


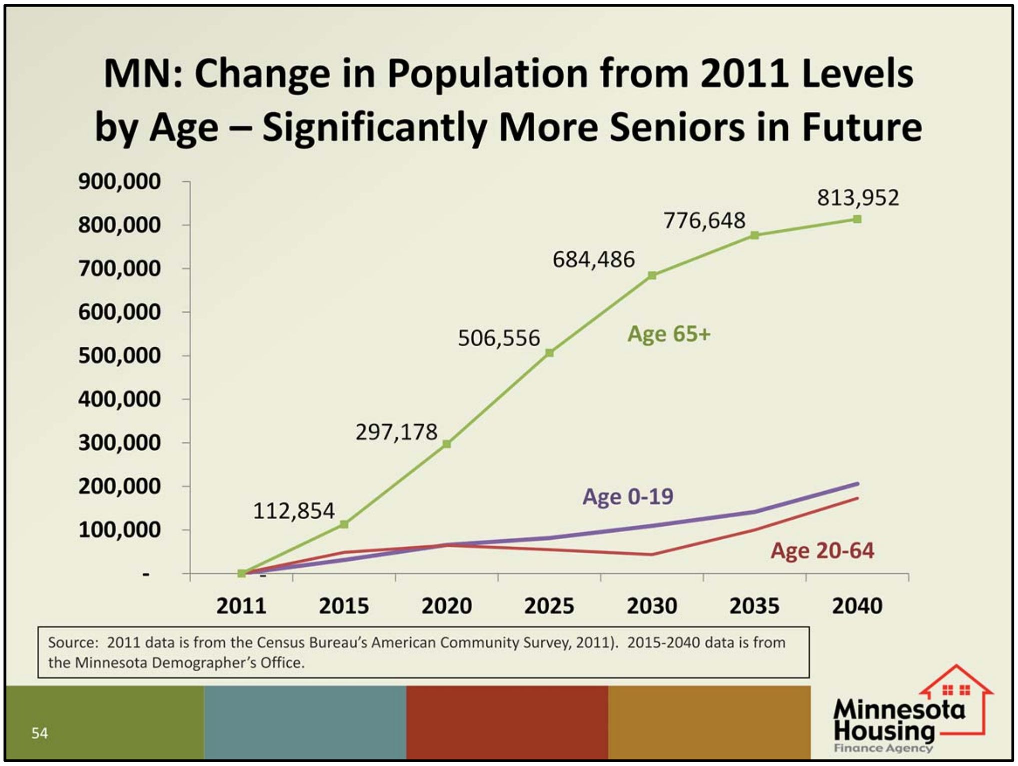
This graph shows Minnesota's population by age group in 2014, highlighting the Baby Boom generation, which is entering retirement age.

Key Points:

- The Baby Boom generation includes people born from 1946 through 1964. In 2014, Baby Boomers were between the ages of 50 and 68, which is represented by the maroon bars in the graph.
  - o The lighter-shaded maroon bar (ages 55-64) only has Baby Boomers.
  - o The darker-shaded maroon bars (ages 45-64 and 65-74) have some Baby Boomers, but also include younger and older generations respectively.
- Baby Boomers are a large age cohort, particularly the younger boomers (ages 50 to 59 in the graph).

Implications:

- With its large numbers, Baby Boomers and their housing needs will play a key role in driving the overall housing market in the coming years.



This graph shows the increase in the number of people that the State Demographer's Office expects to be in each age group through 2040. The number in each year is the increase from the base year of 2011 (when Baby Boomers first became 65). For example, the Demographer's Office forecasted 112,854 more seniors in 2015 than there were in 2011. By 2040, there will be almost 813,912 more seniors than there were in 2011.

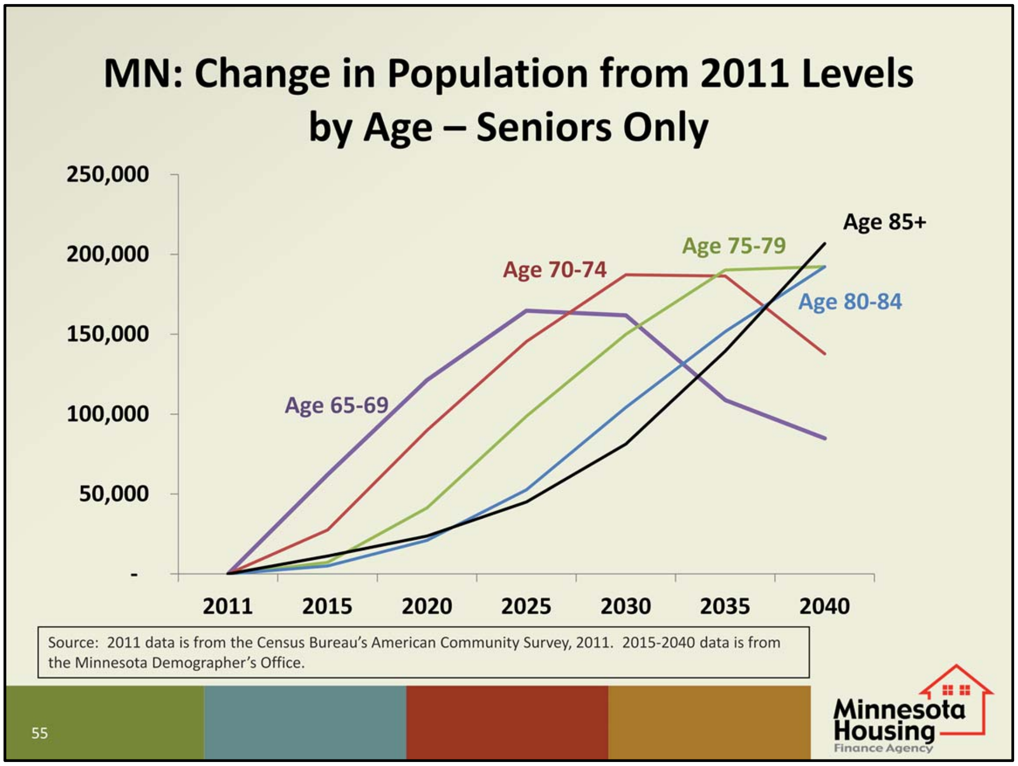
As a point of reference, there were about 705,000 people age 65 or older in 2011. The senior population is expected to double from the 2011 level sometime between 2030 and 2035.

Key Points:

- The senior population will be increasing rapidly.

Implications:

- With limited resources, how do we address the affordable housing needs of this growing population and also address the needs of families with minor children and working-age adults without minor children?



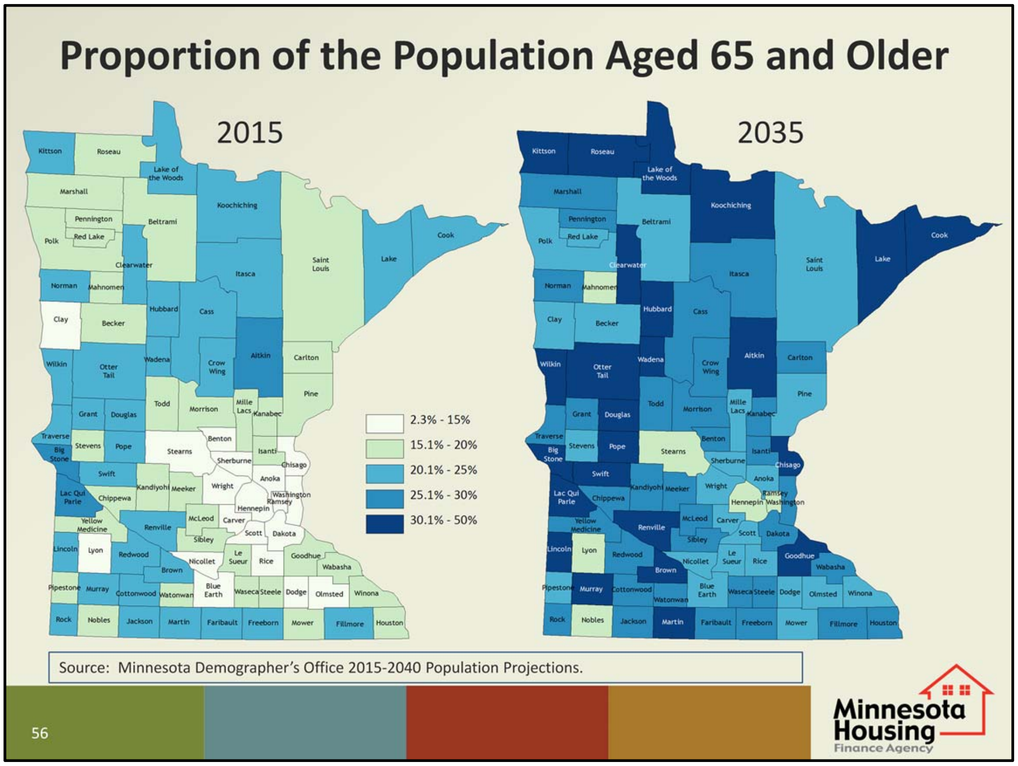
This graph is the same at the previous one, but just shows the senior population by age group.

Key Points:

- The initial big increase in each age group (shown by the kink in the graph) occurs in the following years:
  - Age 70-74 after 2015
  - Age 75-79 after 2020
  - Age 80-84 after 2025
  - Age 85+ after 2030
- The largest part of the Baby Boom generation (those under 60) will not start reaching age 75 until 2030 and age 85 until 2040.

Implications:

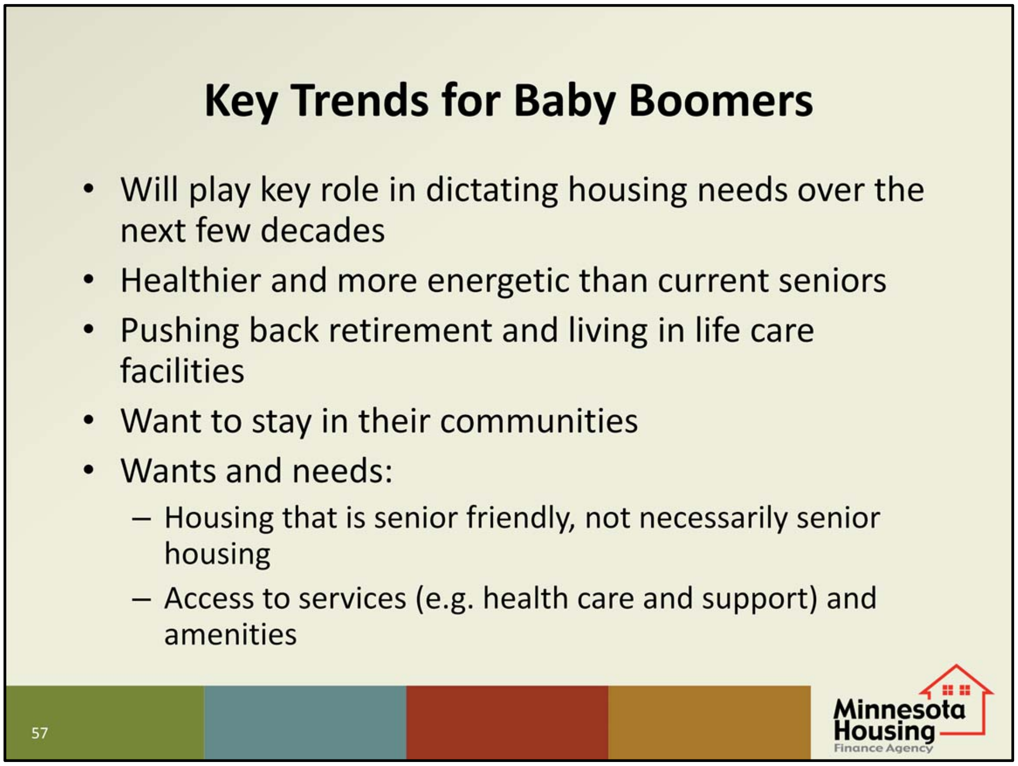
- Seniors at different ages and levels of independence have different housing and service needs. Typically, the youngest seniors live independently in the community, while the oldest (particularly those with disabilities) need services and support.
- How should the state plan for these shifting needs as the Baby Boom generation ages?



This slide shows how the percentage of seniors in each county will change between 2015 and 2035.

Key Points:

- In 2035, seniors will account for more than 30% of the population in many counties, particularly in western and northern Minnesota.
- Seniors will account for less than 20% of the population in only a handful of counties.

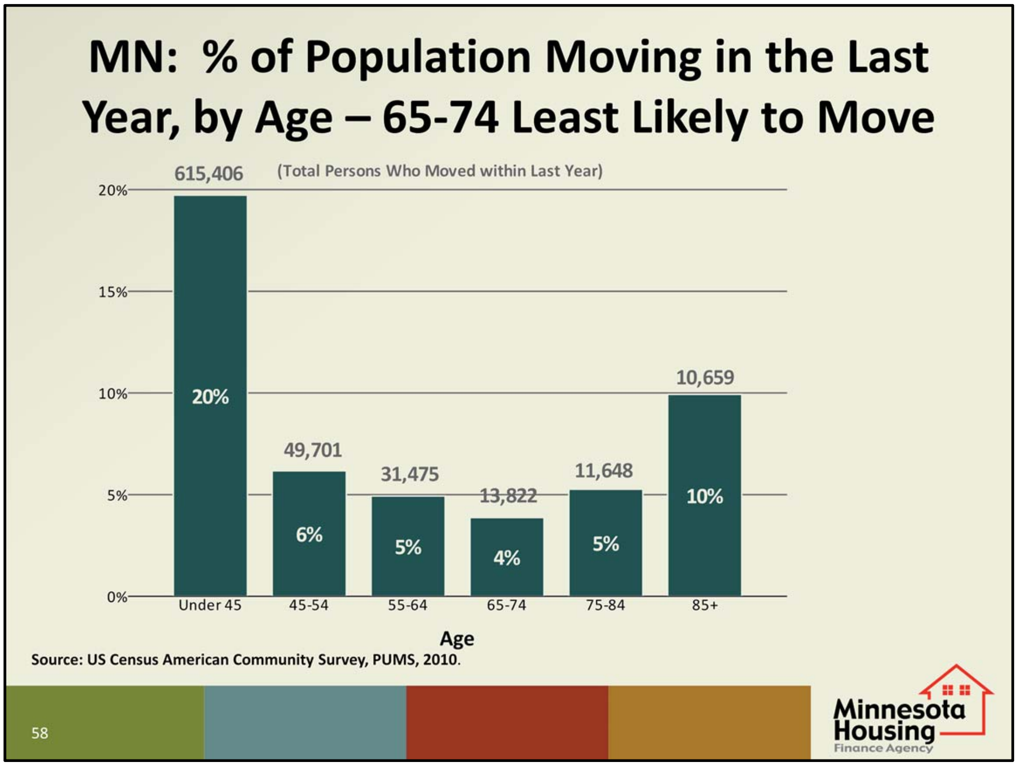


This slide summarizes some the key findings in the literature about housing for seniors.

Implications:

- Minnesota will face challenges in providing housing to seniors that is: (1) affordable, (2) keeps them in the community as long as possible, and (3) provides adequate access to care, services, and amenities.

- This will be particularly challenging in rural areas.



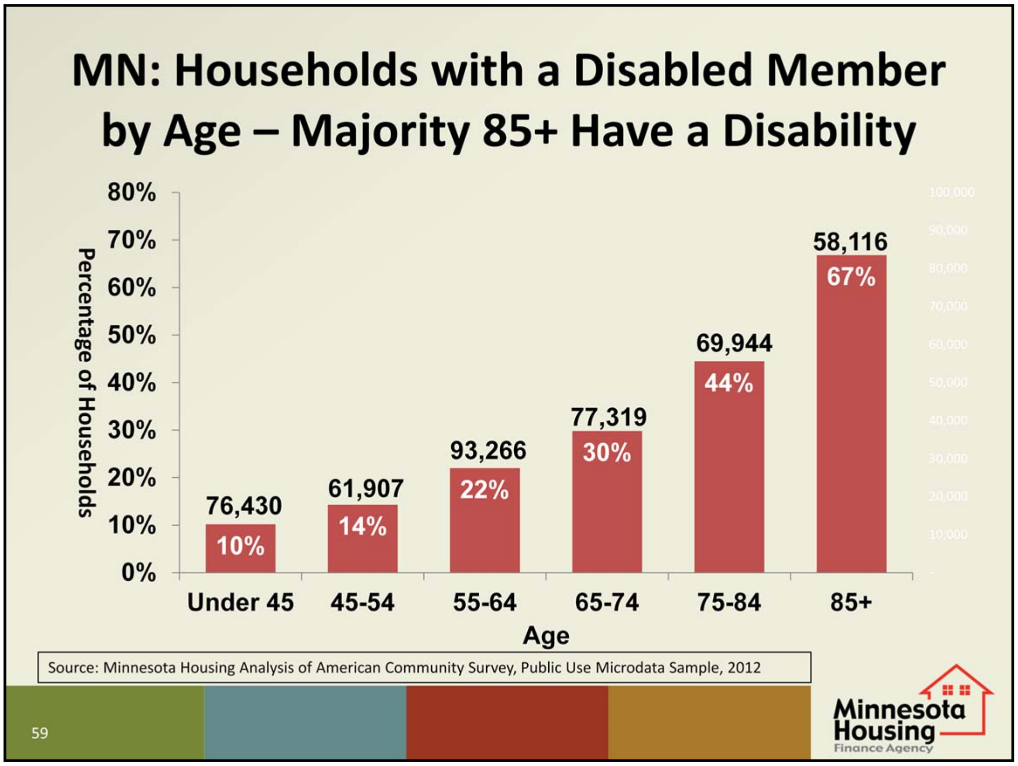
This slide shows the percentage of people by age group that moved in the last year, with the actual number of people moving shown in the figure at the top of the bar.

Key Points:

- People in the initial retirement years of 65 to 74 are the least likely to move, only 4% per year.
- People age 85 or older are the second most likely to move.

Implications:

- Initially after retirement, seniors are very likely to stay where they are currently living.
- Later in retirement, typically after age 85, they are more likely move as independent living is no longer a viable option.



One of the key issues that seniors will face is access to support services and health care. This graph shows the number and percentage of households in each age group that have a household member with a disability. People with disabilities have a greater need of services.

Key Points:

- After age 84, 67% of households have a member who is disabled.
- Through the retirement years (from 65 to 85+), the percentage increases from 30% to 67%.

Implications:

- As Baby Boomers age in their retirement, access to support and heath services will become more important. In addition, design features in homes and apartments will be important. Universal design (e.g. zero-step entrances, wide doorways and hallways for wheel chairs, framing that allows easy installation of grab bars, etc.) will allow seniors to age in place.
- As disabilities levels rise and independent living is less viable, seniors are move likely to move.

MN: Lower-Income Homeownership Rates – Majority of Low-Income Seniors are Homeowners

	With Income <= 50% of HUD Statewide Median (adj. for household size)	With Income <= 30% of HUD Statewide Median (adj. for household size)
Senior Households	64%	53%
Non-Senior Households w/o Children	34%	26%
Non-Senior Households with Children	29%	21%

Source: Census Bureau, American Community Survey, 2012, Public Use Microdata Sample (PUMS). Median income data from HUD.

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As we plan for the housing needs of the Baby Boom generation, we need to keep in mind that most seniors, even low-income seniors, are homeowners. This table shows the share of households by type (senior and child status) that are homeowners by their income level.

Key Points:

- 53% of senior households with income at or below 30% of the statewide median are homeowners.

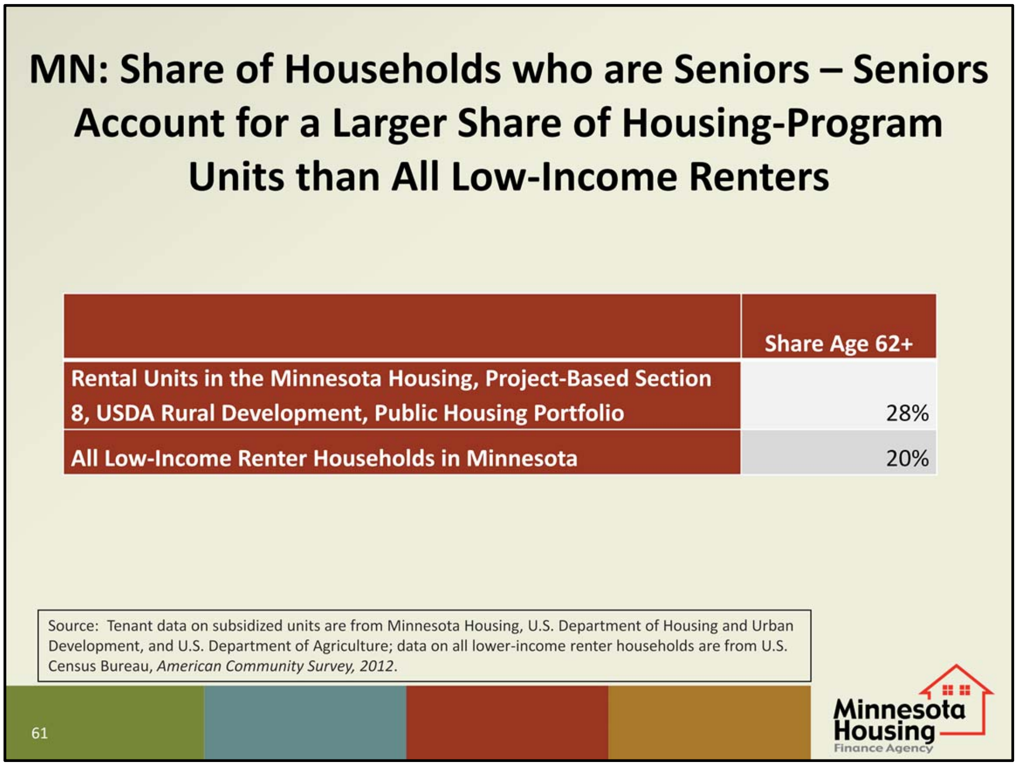
Implications:

As this table and the previous graphs indicate, homeownership needs will be an initial concern:

- Most seniors (including low-income) are homeowners,
- Most seniors remain homeowners to at least ages 75-84,
- The largest group of baby boomers are under age 60.

If current living patterns continue, the largest group of Baby Boomers won't be transitioning from homeownership to renting for at least another 15 to 25 years. What will be the housing needs of these lower-income homeowners? Will it be home repair and maintenance? Will it be the installation of accessibility features to the home? Something else?

Nevertheless, the number of senior renters will also be increasing each year. Rental housing with services will become more and more important over time.



This graph shows the share of senior households in:

- Our multifamily programs, HUD's project-based Section 8 units, USDA's Rural Development properties, and public housing, and
- The general population of low-income renters.

Key Points:

- The share of seniors in the housing programs (28%) is greater than the share in the general population of low-income renters (20%).

Implications:

- While there is an inadequate supply of affordable housing for all lower-income groups, rental housing programs currently serve seniors at a level that is slightly greater than their proportion of the low-income population.
- However, as the previous slides show, the number of senior households renting will likely increase dramatically as the baby boomers reach age 75 and then 85.

MN: Senior Households by Income and Tenure – 40,000 Extremely-Low-Income Senior Renters

	Number of Renter Households	Percentage of Renter Households	Number of Owner Households	Percentage of Owner Households
Below Poverty	21,390	21%	23,529	6%
Poverty to 30% of Statewide Median Income*	18,724	19%	22,094	6%
31% to 50% of Statewide Median Income	24,583	24%	71,374	18%
51% to 80% of Statewide Median Income	17,647	18%	96,555	24%
Great than 80% of Statewide Median Income	18,090	18%	186,378	47%
Total	100,434	100%	399,930	100%

* Excludes 4+ person households, where poverty level is above 30% of median

Source: Minnesota Housing analysis of Census Bureau, 2012 American Community Survey, Public Use Micro-data Sample (PUMS).

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This table shows a detailed breakout of the senior population by income level and housing type:

Key Points:

- 40,000 senior renter households have incomes at or below 30% of the state median income.
- The number of seniors statewide is expected to double around 2035. With that growth rate, we will have another 40,000 extremely low-income senior renter households by 2035.

Implications:

As we consider our objectives and priorities for serving senior renters, the populations with the greatest needs and fewest options, often those with the lowest incomes, should be a priority.

Theme/Trend #10

Minnesota has an Aging Housing Stock

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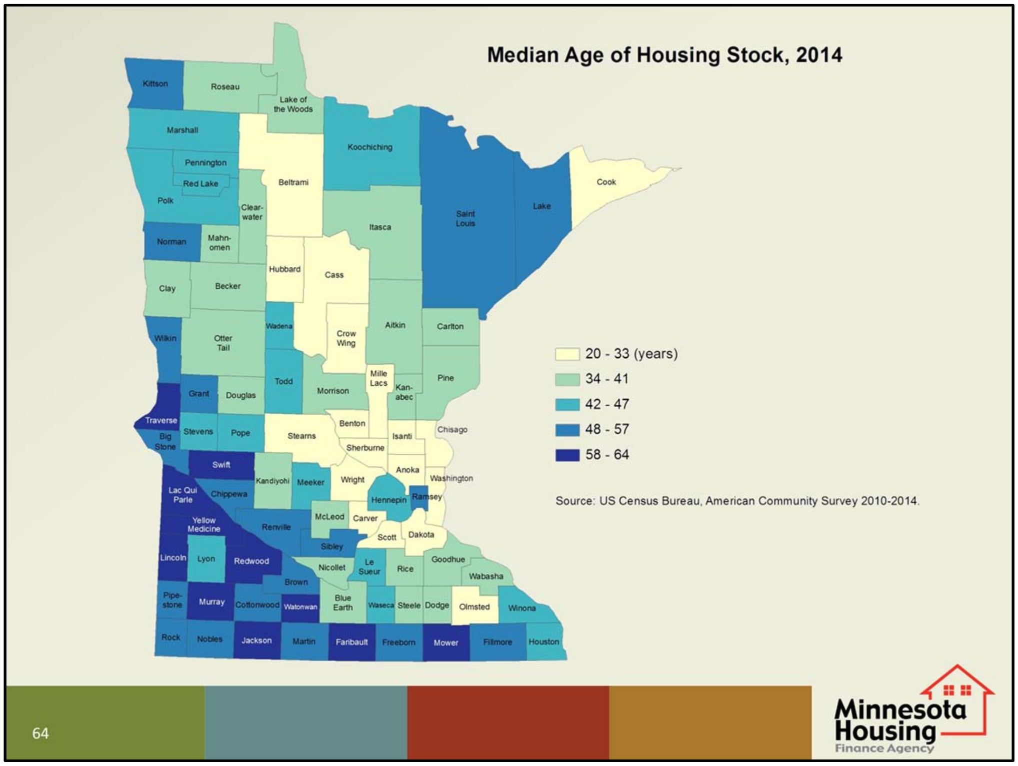


This map shows the median age of the housing stock in each county.

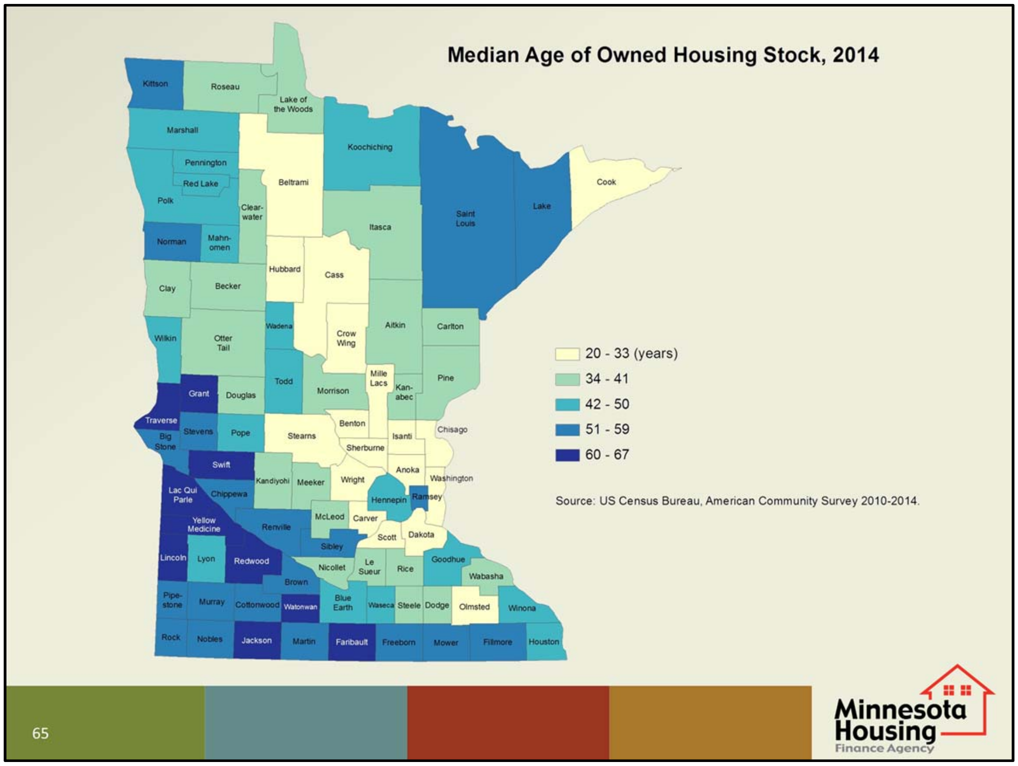
Key Points:

- The median age of housing in the southwestern and southern-border counties is generally over 58 years. Many of these housing units may need significant repairs or rehabilitation.

Implications:

- We have a wide range of programs available for repairing, rehabilitating, and improving older and/or deteriorating properties, which includes:
  - Single Family:
    - Amortizing home improvement loans – Fix-Up Fund
    - Zero-interest, deferred, forgivable loans – Rehabilitation Loan Program
    - Zero-interest deferred loans and grants – Community Homeownership Impact Fund
  - Multifamily:
    - Amortizing first mortgages for acquisition – Low and Moderate Income Rental (LMIR)
    - Tax credits – Low-Income Housing Tax Credits (LIHTC)
    - No-interest, deferred loans:
      - ✓ Preservation Affordable Rental Investment Fund and HOME
      - ✓ Economic Development and Housing/Challenge (EDHC)
      - ✓ Asset Management
      - ✓ Rental Rehabilitation Deferred Loan Program (RRDL)

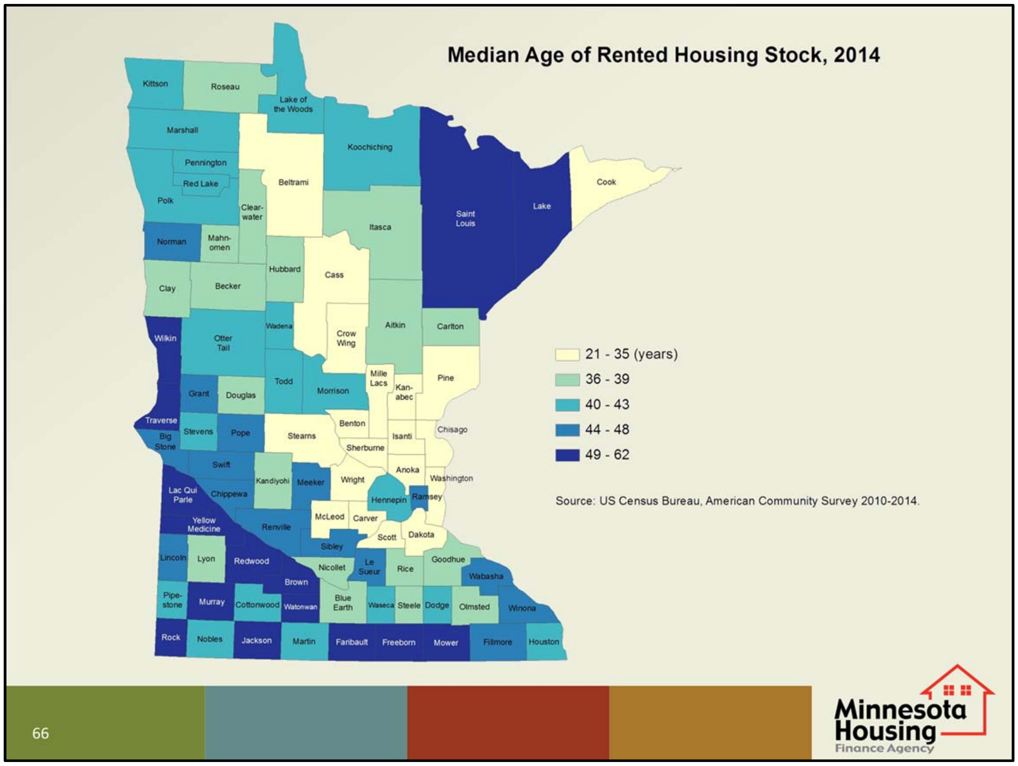
- We need to make sure that we use these funds strategically and effectively.



This map shows the median age of the <u>owner-occupied</u> housing stock.

Key Points:

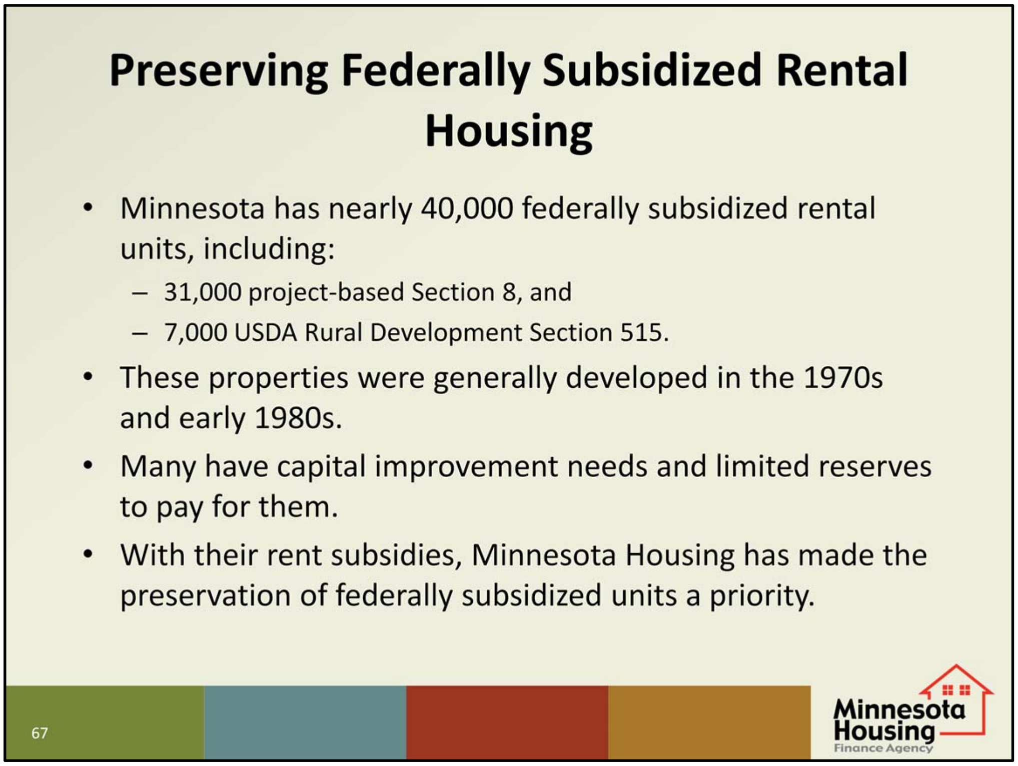
The pattern is very similar to the pattern for the overall housing stock, which is consistent with Minnesota's high homeownership rate, especially in Greater Minnesota.



This map shows the median age of the rental stock (some of which are single-family homes that are rented).

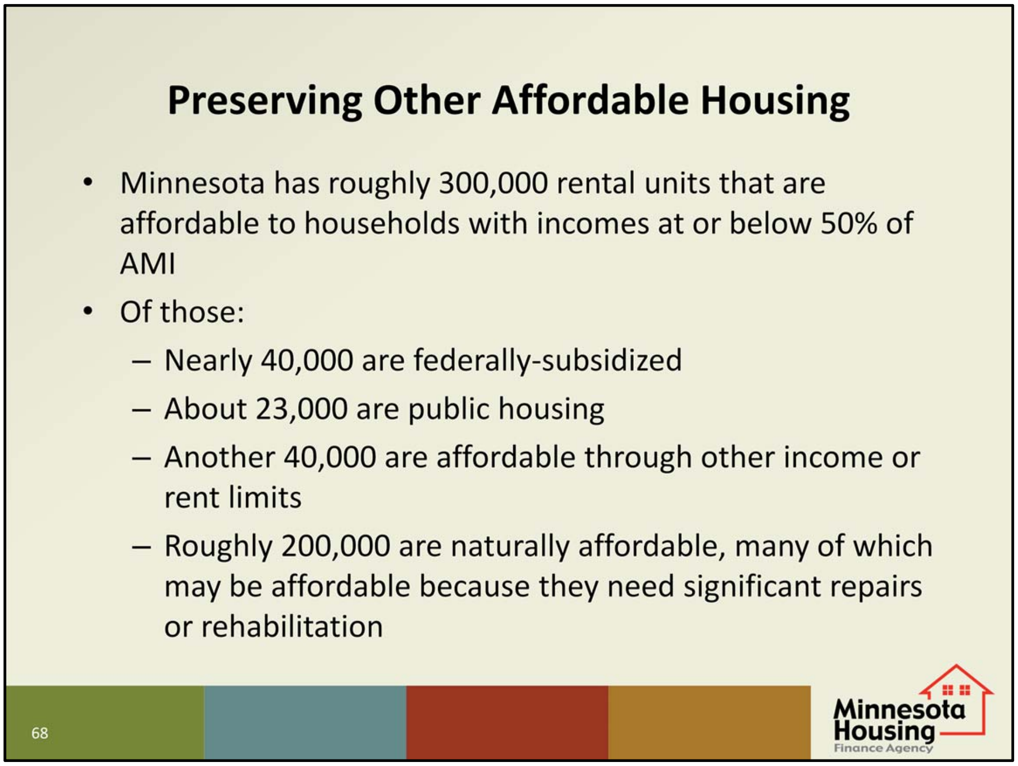
Key Points:

- The age of the rental stock is generally younger.



While the State of Minnesota needs to preserve all types of affordable housing, preserving federally subsidized units is one of our strategic priorities. The rent subsidies provided for these project-based units ensures that tenants pay no more than 30% of their income on rent.

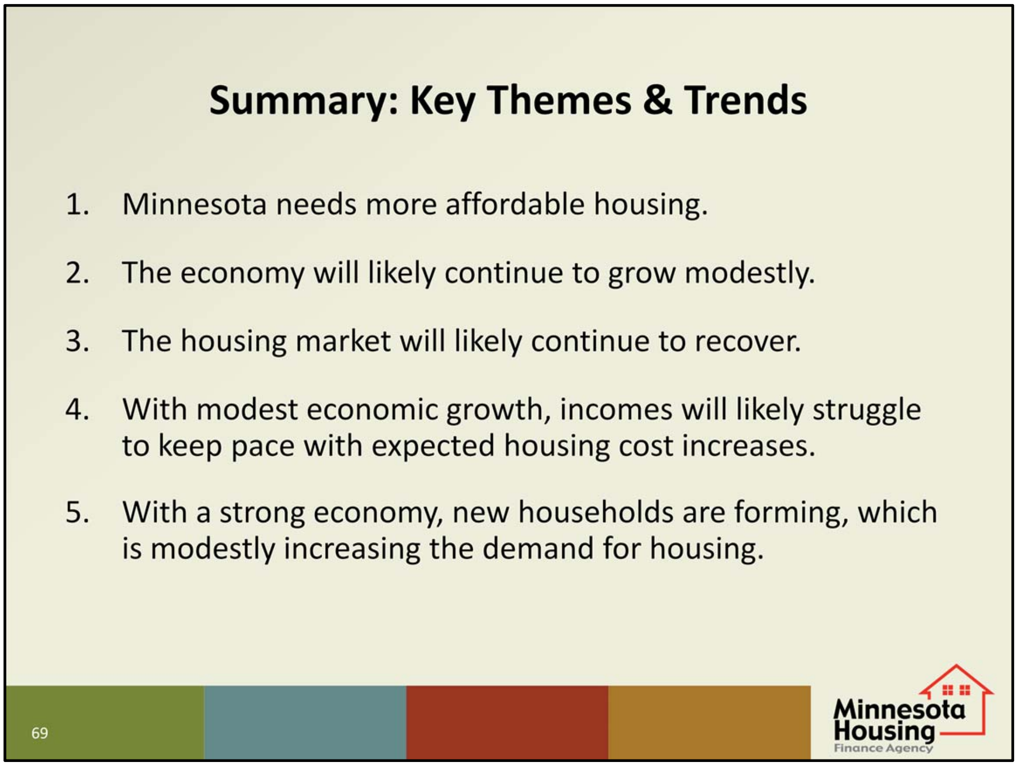
- Minnesota has nearly 40,000 federally-subsidized units.
- They were generally developed in the 1970s and early 1980s.
- Many have capital improvement needs and limited reserves to pay for them.



Preservation of other units also needs to be addressed.

Key Points:

- While project-based rental subsidies are key because they provide the deepest subsidies, preserving other affordable units are also important.
- Of Minnesota's roughly 300,000 rental units that are affordable for households with incomes at or below 50% of AMI:
    - Just under 40,000 are affordable through rent subsidies.
    - About 23,000 are public housing
    - Another 40,000 are affordable through other income or rent limits.
    - Roughly 200,000 are naturally affordable without income or rent limits.
- Many of the naturally affordable units are affordable because they need significant repairs or rehabilitation.



In closing and summary, this slide and the following one just restate the 10 key theme and trends.

Summary: Key Themes & Trends

6. More affordable housing is needed in areas with a growing workforce.
7. Minnesota is becoming more diverse, but disparities in homeownership are significant.
8. For the first time, the number of people experiencing homelessness had a significant decline in 2015.
9. The aging baby boom generation will create new housing needs and challenges.
10. Minnesota has an aging housing stock.

Minnesota Housing Finance Agency

For More Information

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