Multifamily Underwriting Standards

April 2019

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Introduction

The Minnesota Housing Finance Agency (Minnesota Housing) Multifamily Underwriting Standards are current as of the date on the cover page of this document. This guide reflects Minnesota Housing's general approach to underwriting, but they are not meant to be comprehensive, nor are they meant to address every possible situation. If you have a question as to how a standard will apply to a particular project, it is best to consult Minnesota Housing early in the development process. At its sole discretion, Minnesota Housing will update this guide as appropriate.

Except as otherwise indicated herein, this guide will be relied upon by Minnesota Housing for underwriting and sizing of funding awards, including Low and Moderate Income Rental (LMIR) Amortizing Loans, most Deferred Loans* and Housing Tax Credits (HTC), both those selected in the competitive (9%) rounds as well as those awarded in conjunction with tax-exempt bonds (4%).

Tables have been added in applicable sections throughout the document to clearly indicate which type of funding (HTC; LMIR; Deferred) is subject to the applicable provision.

Any wavier of, or any change to these standards, will be determined by Minnesota Housing at its sole discretion.

*The following programs rely on this guide and are collectively referred to as Deferred Loans throughout this document: Economic Development and Housing Challenge (EDHC), Preservation Affordable Rental Investment Fund (PARIF), Housing Infrastructure Bonds (HIB), Flexible Financing for Capital Costs (FFCC), HOME Investment Partnerships (HOME), and National Housing Trust Fund (NHTF). Additionally, Asset Management Loans, which are not generally available through Minnesota Housing's Request for Proposals (RFP), also utilize this guide.

Chapter 1 – Mortgage Credit

1.01 Credit Review

HTC	LMIR	Deferred
X	X	X

The individuals and entities who exercise operational and financial control over a development must have a positive credit history demonstrating that they will honor their legal, financial and contractual obligations. Minnesota Housing's credit review will analyze the appropriate entities as applicable. Minnesota Housing conducts credit reviews at a minimum at the following times:

- During the application and selection process
- Prior to final Mortgage Credit Committee approval for loan closings and/or loan commitments
- As Minnesota Housing deems necessary throughout the transaction

1.02 Owner

HTC	LMIR	Deferred
X	X	X

An Owner is the entity or person who holds title to the real property upon which the project is located.

The Owner is responsible for all the costs incurred as a result of applying for or securing a loan or HTCs from Minnesota Housing, whether or not the development is funded. These costs include, but are not limited to, the appraisal, environmental reviews, market study, title insurance, closing and legal fees, and publication fees. Note that applying, receiving technical assistance, or receiving a selection letter does not create any guarantee from Minnesota Housing that a project will close and these costs will be reimbursed.

1.03 Borrower

HTC	LMIR	Deferred
	X	X

A Borrower is an entity who has received an amortizing first mortgage loan or Deferred Loan from Minnesota Housing.

In addition, Minnesota Housing's LMIR and Deferred Loan programs require that Borrowers be Eligible Mortgagors as defined in Minnesota Statutes Section 462A.03, subdivision 13. For the purposes of this guide, there are two applicable entity types outlined in the statute:

- A nonprofit or cooperative housing corporation, or;
- A limited profit entity needing to adhere to the following requirements:
    - The annual distribution must not exceed 15 percent of the initial capital contribution (or, absent an initial capital contribution, 1.5 percent of Total Mortgageable Cost (TMC) less Developer Fee)

   - Returns exceeding 15 percent are transferred to a residual receipts fund and may be used for project improvements approved by Minnesota Housing

- Or such other recipient as allowed under the specific program requirements.

A Borrower must be a single asset entity in order to obtain a nonrecourse LMIR Amortizing Loan or nonrecourse Deferred Loan. Loans to multiple asset entities will be limited to Deferred Loans and will be full recourse to the Borrower and Guarantor(s).

Minnesota Housing Bridge Loans will be full recourse to the Borrower and Guarantor(s).

1.04 Sponsor

HTC	LMIR	Deferred
X	X	X

A Sponsor is an individual or legal entity that exercises control, financial responsibility and decision-making authority over the project.

All funding awards, including HTC awards and allocations, require full Sponsor credit reviews, including submission of the Minnesota Housing Qualification of Sponsor and/or Guarantor (Form 203B) and financial information required therein as part of the initial application for funding or HTCs. Sponsor(s) must collectively demonstrate acceptable multifamily housing experience and financial capacity to guarantee performance. Financial capacity may be supported by additional Guarantor(s) as described in 1.05 below.

1.05 Guarantor

HTC	LMIR	Deferred
	X	X

A Guarantor is the entity or individual who signs a Guaranty. In many cases the Sponsor is the Guarantor, and this subchapter provides guidance for when additional parties are proposed. Minnesota Housing will conduct its financial capacity review of the Sponsor and proposed Guarantor(s) identified on the Development Team tab of the Multifamily Workbook (Workbook), and Guarantor's must submit Minnesota Housing Form 203B Qualifications of Sponsor and/or Guarantor along with the required financial attachments. Changes in proposed Guarantors at any time from application to closing require Minnesota Housing's review and written consent. Minnesota Housing reserves the right to require additional Guarantor(s) to enhance the financial capacity of the proposed Guarantor(s) to ensure that the Guarantor(s) collectively demonstrate acceptable financial capacity to guarantee performance as described below.

- Construction Completion Guaranty guarantees timely lien-free completion of the work in accordance with the construction plans and specifications and the applicable loan documents.
- Repayment Guaranty guarantees principal and interest payments until the development has achieved a 1.11 to 1 Debt Coverage Ratio (DCR) (assuming the higher of actual or underwritten expenses) for three consecutive months.
- Operations Guaranty guarantees everything under the loan documents, excluding construction completion and principal and interest.

Minnesota Housing Loan Type	Construction Completion Guaranty	Repayment Guaranty	Operations Guaranty
LMIR Amortizing Loan	If applicable[1]	Yes	Yes
LMIR Bridge Loan	Yes	Yes	Yes
Deferred Loan when the construction budget is not in balance at closing	Yes	If applicable[2]	No
Deferred Loan when the construction budget is in balance at closing	If applicable[2]	If applicable[2]	No

[1] Construction Completion Guarantees are required when the LMIR Amortizing Loan is closed and may be drawn upon during the construction period.

[2] Minnesota Housing reserves the right to require construction completion guarantees and Repayment Guarantees for any Deferred Loan that is in first lien position and is greater than $2 million.

Minnesota Housing reserves the right to require construction completion guarantees from the Developer, regardless of its affiliation with the Sponsor.

Minnesota Housing reserves the right to require additional guarantees at its sole discretion based on the risks of the transaction and the financial strength of the entities involved.

1.06 Tribal Nation Guarantor

HTC	LMIR	Deferred
	X	X

Both amortizing first mortgage loans and Deferred Loans to projects located on tribal land that are full recourse or based on the strength of the project, may be guaranteed by the tribal government in the form of a tribal council resolution addressing:

- Construction completion
- Operating cost shortfalls
- Debt service payments

1.07 Developer

HTC	LMIR	Deferred
X	**X**	**X**

The Developer is typically a separate legal entity from the Borrower or Guarantor(s) who may complete any or all of the following tasks for a development:

- Submits the HTC or funding application(s) on behalf of the Borrower
- Receives a Developer Fee, if any, from the Owner
- May defer a portion of the Developer Fee as a receivable from the Owner to close funding gaps as needed
- Is a party to a Development Services Agreement or contract with the Owner

- Incurs pre-development costs on behalf of the Owner

Developers must demonstrate acceptable multifamily housing experience and financial capacity to guarantee performance of their duties as described in the Development Services Agreement. The Developer must submit Minnesota Housing Form 203A Qualification of Developer and all required attachments as part of the initial application for funding or HTCs.

NOTE: Minnesota Housing reserves the right to approve the replacement of the Developer after a project is selected for an HTC reservation.

1.08 Interim Replacement General Partner or Managing Member

HTC	LMIR	Deferred
	X	X

Limited partners or investor members seeking the future ability to remove and replace the general partner or managing member of the Borrower, for cause, with an affiliated entity on an interim basis (not to exceed ninety (90) days), must request Minnesota Housing approval prior to loan closing.

Chapter 2 – Income

2.01 Rent Revenue

HTC	LMIR	Deferred
X	X	X

Rents shown in the Workbook and year one of the cash flow will be the rents that will be in effect when the development is placed in service. Existing operating developments will be underwritten at current rents unless there is sufficient evidence that a rent increase for the development is feasible in the local market.

Project-based Section 8 or Rural Development Rental Assistance

For developments with long-term Project-based Section 8 Rental Assistance (Section 8), Minnesota Housing may underwrite and size its funding based upon U.S. Housing and Urban Development (HUD)-approved rents under Housing Assistance Payments (HAP) contract rents, including approved but pending Mark-Up-To-Market (MUTM) and HUD-approved exception rents. In the case of developments pursuing renewal options that allow for staged-in, HUD-approved, "after rehab" rents, Minnesota Housing may allow the higher rent levels to be incorporated into the underwriting, but will underwrite a transition reserve into the development budget. For developments with USDA Rural Development (RD) Rental Assistance, Minnesota will underwrite to the RD Conventional Rents for Comparable Units (CRCU) approved rents.

Privately Funded Rental Assistance

Developments proposing to include privately funded tenant Rental Assistance must submit documentation from the organization pledging the Rental Assistance as part of the application. Required documentation includes a narrative explaining how the assistance was calculated and will be administered; a board resolution committing and restricting the full amount of the assistance pledged for the term of the assistance; and evidence of the financial ability to meet the pledge as demonstrated using audited financial statements, IRS Form 990, current bank statements, etc. Evidence of the financial ability to meet the pledge will also be required prior to final Mortgage Credit Committee approval and loan closing.

For Rental Assistance proposed by a tribal government, documentation must include a tribal council resolution committing to provide the Rental Assistance in the amount and for the term proposed as well as the source of the funding.

2.02 Supportive Housing Standards – High Priority Homeless or People with Disabilities

HTC	LMIR	Deferred
X	X	X

Developments that have units set aside and rented to households who are High Priority Homeless (HPH) or People with Disabilities (PWD) are considered supportive housing units.

Housing Support (fka Group Residential Housing [GRH])

For supportive housing units with Housing Support, formerly known as Group Residential Housing (GRH), the gross rents should be underwritten at the following levels.

Note that the rate reflected in this document is the current rate effective July 1, 2019; however, Minnesota Housing will utilize the current rate in effect at the time of underwriting and loan sizing, subject to the conditions below.

- Efficiencies and one bedroom units: Recommended maximum gross rent level of $722 per unit. **NOTE:** Total available Housing Support is $922 per month (effective July 1, 2019), but $200 may be used to pay for other housing related expenses to meet the requirements of the Housing Support room and board standards, and the administrator may also use a portion for administration.
- Larger units (more than one bedroom): Housing Support can also be used for families, but the rent/income payment structure is more complex. Consult with the local county or the Minnesota Department of Human Services (DHS) and the Housing Support administrator (service provider) for assistance in developing the Housing Support rent structure. The total amount of available assistance is $922 and rents may be set up to that amount if the room and board standards can be provided with other resources.
- Some settings are allowed to use the total Housing Support rate for housing costs if the room and board provisions can be provided with other resources. This should be determined by the Developer in consultation with the service provider and the county.
- Verification to support higher gross Housing Support rent levels should be described in the Supportive Housing Narrative.

Supportive Housing Rent Levels

HTC	LMIR	Deferred
X	X	X

For HPH or PWD units without any form of Rental Assistance or subsidy, rents must be set at affordable levels for the population. The gross rent (contract rent + tenant- paid utilities) should be underwritten at the following levels:

Target Population	Monthly Gross Rent Per Unit
SRO and Efficiency/Singles (only)	$100
1 BR/Singles or Families with Children	$130
2 BR or larger/Families with Children (only)	$180

Upon occupancy, for units set aside for HPH or PWD in properties without project-based Rental Assistance for such units, tenant rents, including an allowance for tenant-paid utilities, cannot exceed the greater of 30 percent of the household’s monthly income or the most current supportive housing standard rental rate for the unit size, as published annually with the rent and income limits by Minnesota Housing.

For information on rent increases for supportive housing units with no rent subsidies and other supportive housing information, refer to the Supportive Housing Information and Resources publication on Minnesota's Housing website.

2.03 Other Income

HTC	LMIR	Deferred
X	X	X

Minnesota Housing will evaluate other income (e.g., fees, laundry, parking), and it should be reasonable and comparable to other developments within the region. The amounts will be evaluated by Minnesota Housing's staff.

2.04 Commercial Space

HTC	LMIR	Deferred
	X	X

Income from commercial space will be underwritten on an exception basis only. Five years of operating history will be required, and Minnesota Housing will, at its sole discretion, determine an appropriate vacancy rate.

2.05 Vacancy Factor

HTC	LMIR	Deferred
X	X	X

Properties will generally be underwritten at a 7 percent vacancy rate. A lower vacancy rate of 5 percent may be used if the property has any of the following:

- Rents at least 20 percent below comparable market rents; or
- Properties assisted by Section 8 or RD Rental Assistance, if justified by historic operations; or
- Any existing properties where a lower vacancy is supported by historic performance

The above percentages are standards, and if warranted by historic performance or market conditions, a different vacancy rate may be used. Minnesota Housing will, at its sole discretion, determine the appropriate vacancy rate.

2.06 Income Averaging

The Consolidated Appropriations Act of 2018 established income averaging (IA) as a third minimum set-aside election for new HTC projects.

LMIR Amortizing Loans that are coupled with HTC utilizing Income Averaging set-aside must still meet the minimum rent and income requirements of the LMIR program statutes, and if applicable, all bond requirements. Minnesota Housing will underwrite units with incomes up to 70% and 80% MTSP at 60% MTSP rent limits. At Minnesota Housing's sole discretion, a small portion of units may be underwritten at rents higher than 60% MTSP limits if proposed rents are at least 10% below achievable market rate rents. Proposed rents higher than 60% MTSP limits must also be approved in writing by the tax credit syndicator.

2.07 Interim Income

Interim Income will be recognized as a source in the Workbook for any operating property when no debt service payments are being made from operations during the construction period. Minnesota Housing staff will consider the historic operating income, the proposed scope of work and the proposed Relocation Plan to determine an appropriate amount to include. Generally up to 75 percent of anticipated net operating income will be considered. To ensure closing in balance requirements are met (refer to Chapter 11 of this document), Interim Income will likely need to be bridged during the construction period.

Chapter 3 – Expenses

3.01 Management and Operating Expenses

HTC	LMIR	Deferred
X	X	X

The Developer will submit the Management and Operating (M&O) budget based on anticipated stabilized operating expenses occurring after the development is placed in service or upon full occupancy. For operating properties, the historic M&O expenses will be used with appropriate adjustments for projected economies attributable to the proposed rehabilitation and for changes associated with new program requirements.

M&O expenses (total operating expenses not including real estate taxes and reserves) will be evaluated and analyzed in relationship to comparable properties in Minnesota Housing's portfolio, expense comparables in the appraisal, and other information deemed relevant and appropriate.

M&O expense numbers are analyzed on a per room basis. The rental rooms per unit are calculated as follows:

Unit Type	Rental Rooms Per Unit
Bed/Shelter	2
EFF/SRO	2.5
1 BR	3.5
2 BR	4.5
3 BR	6
4 BR	7
5 BR	8.5

The proposed M&O expenses should be based on the Developer/management company's current portfolio and supported by:

- Actual audited operating data for at least three years of stabilized operations, for existing developments
- Actual audited operating data provided by the Developer/management company, for similar developments
- Circumstances and/or significant changes to the economics of the development's current marketplace, such as increased utility costs and property insurance
- Operating trends of the Developer/management company

In sizing its funding awards, Minnesota Housing reserves the right to adjust the proposed M&O expense based upon the information supplied, specified development type, circumstances and/or significant changes to the economics of the development's current marketplace. Minnesota Housing will place primary emphasis on its M&O database to compare projected M&O expenses with audit data from comparable property types.

3.02 Property Taxes

HTC	LMIR	Deferred
X	X	X

The Low Income Rental Classification (LIRC) tax rate was created by the Minnesota Legislature in 2005 to provide significant relief to certain housing developments where a minimum of 20 percent of the units meet specific income and rent restrictions.

All properties that are eligible for LIRC or Payment in Lieu of Taxes (PILOT) must participate in and will be underwritten assuming participation in the applicable programs. Refer to Low Income Rental Classification (LIRC) on Minnesota Housing's website.

3.03 Construction Contingency

HTC	LMIR	Deferred
X	X	X

A construction contingency is required.

- For new construction developments, a 4 percent construction contingency is required.
- For rehabilitation developments, a 7 percent construction contingency is required.
- Higher contingencies (generally up to 5 percent for new construction or 10 percent for rehabilitation) may be approved, if required by a syndicator, first mortgage lender or as determined appropriate by Minnesota Housing's architect.

3.04 Construction Oversight Fee

HTC	LMIR	Deferred
	X	X

A construction oversight fee will be assessed to all developments receiving Minnesota Housing amortizing first mortgage loans, Bridge Loans or Deferred Loans, except for loans under the HOME or NHTF programs. The fee will be assessed at the lessor of 0.25 percent of the construction contract amount or 1.0 percent of the aggregate amount of Minnesota Housing loans.

Chapter 4 – Fee Limits

4.01 General Contracting Fee Limits

HTC	LMIR	Deferred
X	X	X

- **Contractor's Profit**: The maximum contractor profit is 6 percent of Net Construction Costs.
- **General Requirements**: The maximum general requirements allowed are 6 percent of the Net Construction Costs.
- **Contractor's Overhead**: The maximum allowance for overhead is 2 percent of Net Construction Costs. The contractor fee limits may deviate from the above-noted maximum allowances so long as they do not exceed 14 percent of Net Construction Costs in the aggregate.
- **Identity of Interest with the Contractor**: When there is an Identity of Interest between the Developer or Owner and the contractor, in addition to the fee limits stated above, the combined sum of Developer Fee, contractor profit, contractor overhead, and general requirements may not exceed 20 percent of the Total Development Costs (TDC), less the Developer Fee.

  An identity of interest exists with the contractor exists when:

  i. There is any financial interest of the Owner or Developer in the contractor or any financial interest of the contractor in the Owner or Developer.

  ii. Any officer, director, or stockholder or partner of the Owner or Developer is also an officer, director or stockholder or partner of the contractor.

  iii. Any officer, director, stockholder, or partner of the Owner or Developer has any financial interest in the contractor; or any officer, director, stockholder, or partner of the contractor has any financial interest in the Owner or Developer.

  iv. The contractor advances any funds to the Owner or Developer.

  v. The contractor takes stock or any interest in the Owner or Developer entity as consideration of payment.

  vi. Any relationship (e.g. family) existing that would give the Owner, Developer or contractor control or influence over the price of the contract or the price paid to the subcontractor, material supplier or lessor of equipment.
- **Other Services:** Construction management, construction coordination, owner construction representative services or other similar services in addition to or outside the single, prime general contractor construction contract must not be considered construction costs. The costs or fees for these additional services, if approved by Minnesota Housing, must be included in the Developer Fee or some other development cost determined by Minnesota Housing.

Refer to Minnesota Housing's Contractor's Guide for definitions and more detailed information.

4.02 Architect Fee Limits

HTC	LMIR	Deferred
X	X	X

Refer to Minnesota Housing's Architect's Guide for requirements for architect compensation. Separate allowances for design and construction administration are calculated based on the gross construction cost on the Workbook. The design allowance (75 percent) is provided at completion and acceptance of the working drawings and specifications (i.e., at closing). The construction administration allowance (25 percent) is provided over the course of construction.

4.03 Developer Fee Limits

HTC	LMIR	Deferred
X	X	X

The Developer Fee is provided to the Developer of rental housing for the time and energy expended on, and risks associated with, putting a development together. Developer Fees include developer overhead, Developer processing fee, if applicable, Developer profit, and any other amounts received by the Developer as approved by Minnesota Housing. The Developer Fee must be attributed only to the development.

In some instances, the Developer may delegate some of his or her responsibilities to a third party, such as a Processing Agent, construction manager, or Owner's representative or consultant. In such cases, the delegated responsibilities must be thoroughly understood by all parties involved, and the fee paid to the third party must be included in the calculation of the permitted maximum Developer Fee.

A Developer Fee can be included in the TDC of the development. The maximum allowable Developer Fee is based on a percentage of the TDC less the Developer Fee. Minnesota Housing's maximum Developer Fee is reflected in the table below. No exceptions will be made to these limits.

Development Type	Size	Maximum Developer Fee
New Construction or Rehabilitation	First 50 Units	15%
New Construction or Rehabilitation	Units 51 and over	8%

The maximum amount of the Developer Fee paid at closing is 50 percent of the portion of the Developer Fee being paid with development financing sources. The remaining 50 percent of the Developer Fee may be paid no sooner than the final construction draw.

A Deferred Developer Fee may be included as a source in the construction budget, and payments toward the Deferred Developer Fee from cash flow after debt service may be shown on the Cash Flow tab of the Workbook. Minnesota Housing will typically allow an amount that is up to the lesser of 50 percent of the total Developer Fee or the amount that can be paid back from excess cash flow in 10 years.

An Incentive Developer Fee is not allowed for developments awarded a Minnesota Housing Deferred Loan. Minnesota Housing will require any reference in the Limited Partnership Agreement (LPA) of an Incentive Developer Fee to be removed from the LPA.

NOTE: *Specific use of any cost savings at the end of construction requires approval from Minnesota Housing and in no case may cost savings be used to increase the approved Developer Fee. For more information about cost savings at the end of construction, refer to Chapter 11 of this document.*

Chapter 5 – Reserves and Escrows

5.01 Replacement Reserves

HTC	LMIR	Deferred
X	X	X

Replacement reserves must be budgeted at no less than $300 per unit per year for senior housing and $450 per unit per year for all other housing. Reserves may be capitalized at an equivalent level if the operating budget will not support ongoing deposits to the reserve. If the Capital Needs Assessment 20 Year Expenditure Template indicates a higher amount necessary to address future capital needs, then higher annual deposits, annual escalators to the reserve deposit, and/or a Borrower funded initial deposit will be required.

5.02 Initial Deposit to Replacement Reserves

HTC	LMIR	Deferred
X	X	X

Minnesota Housing may require an initial deposit to the replacement reserves, depending upon the 20-year capital needs assessment and the level of ongoing contributions to replacement reserves.

5.03 All Reserves

HTC	LMIR	Deferred
X	X	X

All unexpended funds remaining in development reserve accounts must remain for development use during the term of Minnesota Housing's loan or the Extended Use Period, whichever is longer. The LPA must include a provision addressing the terms and conditions for disbursement from the reserve accounts that specifically states that upon the transfer of any ownership interest or at the end of the compliance period, whichever is earlier, any funds remaining in the reserve accounts must remain with the development for the term of Minnesota Housing's loan or the Extended Use Period, whichever is longer.

Existing developments applying for HTCs and/or refinancing will be required to show existing reserves as a source.

5.04 Operating Deficit Escrow

HTC	LMIR	Deferred
	X	

An Operating Deficit Escrow (ODE) is required for all developments funded with a LMIR Amortizing Loan. A waiver of the ODE may be considered for a Minnesota Housing refinance loan, at the sole discretion of Minnesota Housing.

At the time of initial closing of the LMIR Amortizing Loan, Borrowers are required to establish an ODE, funded with cash or an irrevocable and unconditional letter of credit. Cash to fund the ODE must not be derived from the proceeds of any development sources, including equity. The ODE is not included in the TDC.

Minnesota Housing may use the ODE at its sole discretion, on behalf of the Borrower, to pay for development rent-up and operating expenses during the initial lease-up period.

- The ODE will be sized based on the greater of:
  - 3 percent of the loan amount, or
  - The projected operating deficit during the absorption period, as determined by Minnesota Housing's underwriting analysis
- The ODE will be maintained until the later of the following two scenarios:
  - One year after permanent loan closing, or
  - Achievement of a 1.11 to 1 DCR for six consecutive months. The DCR will be calculated based on actual collected revenue less the greater of actual or underwritten effective gross expenses

After achievement of both of these scenarios, the letter of credit or the remaining cash and interest earned thereon is returned to the Borrower.

Based on Minnesota Housing's Mortgage Credit Committee review, bond rating agency or marketing requirements, Minnesota Housing may require the Borrower to extend the period or require a larger ODE.

Chapter 6 – Proforma Assumptions

6.01 Income and Expense Inflation Factors

HTC	LMIR	Deferred
X	X	X

The proforma cash flow will assume revenue increases of no more than 2 percent per year and operating expense increases of no less than 3 percent per year. **NOTE:** Developments with expense-based rents can use income and expense inflation factors that are equivalent.

Developments with project-based Section 8 Rental Assistance will assume revenue increases no greater than the historic average of the development or 1.5 percent per year. Developments with RD Rental Assistance with budget-based rents approved by RD are encouraged to include at least a 0.50 percent differential in the underwritten income and expense inflation factors. A partially assisted development would have a pro rata inflation factor. Minnesota Housing reserves the right to change the appropriate inflation factors based on changes in the economic outlook.

6.02 Debt Coverage Ratio

HTC	LMIR	Deferred
X	X	X

The level of risk presented by a development, including overall quality, current market conditions and other factors, will be considered when making the determination of what level of DCR a particular award will require.

The minimum DCR for year one of stabilized operations is as follows:

Subsidized Properties (90% Section 8 or RD Rental Assistance)	Affordable Properties	Equity Cash Out*
1.11	1.15	1.20

***NOTE**: Equity Cash Out is defined as any refinance or restructure proposal that includes equity being taken out, including Related Party Transactions and limited partner buyouts.

The development must reflect a cash flow, after all expenses and reserves, that reflects at least a 1.00 to 1 DCR, for 15 years on a proforma basis. The cash flow must include mandatory expenditures such as bond fees.

Minnesota Housing will size all funding, including HTC, using these standards as the maximum, regardless of other funder/syndicator requirements. Exceptions may be made as determined appropriate by Minnesota Housing based on the perceived risks of the proposal.

Chapter 7 – Acquisition

7.01 Purchase Price

HTC	LMIR	Deferred
X	X	X

- Minnesota Housing will underwrite the acquisition cost based on the lesser of the option/purchase agreement purchase price or the appraised value of the property. For details on valuation methodology, refer to the appraisal requirement section of this guide.
- For a Related Party Transaction that occurs within three years of a previous arms-length, third-party transaction, Minnesota Housing will size its funding based upon the lesser of the previous third-party transaction's purchase price, with no adjustment for appreciation or depreciation, or the appraised value of the property at the time of selection for funding.
- For a development acquired as part of a portfolio acquisition, Minnesota Housing will use the value as identified on the Certificate of Real Estate Value to establish the initial purchase price.
- For a development acquired as part of a land and/or building subdivision, Minnesota Housing will use a reasonable allocation from the Certificate of Real Estate Value to establish the initial purchase price.
- For a Related Party Transaction that occurs at the time of closing, Minnesota Housing will evaluate the amount of equity take-out and may resize its funding awards.

7.02 Acquisition-Related Costs

HTC	LMIR	Deferred
X	X	X

Minnesota Housing may include in its funding award certain acquisition-related costs incurred in the three years prior to the application date. The following costs may be included in the Acquisition or Refinance Existing Debt Costs section of the Workbook, as applicable:

- Relocation
- Loan fees and three years or fewer of interest on an acquisition loan up to a 6 percent interest rate
- Legal costs related to acquisition
- Title insurance
- Capital improvements made since acquisition (if documented)
- Taxes, insurance, security, maintenance, utilities

Including such costs in the Acquisition or Refinance Existing Debt Costs section of the Workbook does not change how acquisition-related costs are treated by Minnesota Housing for the purpose of calculating the percentage of intermediate costs for HTC purposes.

During the pre-development holding period, all net cash flow from operations, except for a reasonable asset management fee, must be directed toward holding costs and improvements if Minnesota Housing Deferred Loan funding is requested.

Chapter 8 – Appraisal Requirements

8.01 Appraisal to Support Acquisition Costs

HTC	LMIR	Deferred
X	X	X

Minnesota Housing will underwrite the acquisition cost based on the lesser of the option/purchase agreement purchase price or the as-is appraised value of the property. Refer to Chapter 7 of this document for additional information regarding acquisition costs.

A Minnesota Housing engaged appraisal is required to support the acquisition price and will be used by Minnesota Housing and its Funding Partners to size funding awards, including competitive (9%) HTCs. Appraisals ordered by the applicant, or otherwise not engaged by Minnesota Housing, will not be accepted. Refer to Section 8.05 of this document for appraisal requirements for proposals requesting a Preliminary Determination Letter without any Minnesota Housing loans.

The appropriate value will be based on the type of proposal:

- Land-only (for new construction): Fee simple, market value of the land. The appraisal will consider the real property's zoning as of the effective date of the appraiser's opinion of value. If the real property consists of more than one parcel, the parcels will be combined in one appraisal with one value conclusion.
- Acquisition/Rehab: Fee simple, in as-is condition
  - Assuming market rate rents, and
  - Assuming existing restricted rate rents
  - The appropriate value will be determined by Minnesota Housing based on the characteristics of the proposal and the ability to be released from existing restrictions, if any
- Adaptive Re-use: Fee simple market value of the property to be adapted for an alternate use. The valuation will assume the highest and best use permitted by law and economically feasible in the current market.

The following types of proposals are exempt from the appraisal requirement at the time of selection; however, Minnesota Housing, at its sole discretion, reserves the right to secure an appraisal at the Borrower's expense at a later date:

- Acquisition price up to $250,000; or
- Land only where there is no Buyer/Seller Identity of Interest*; or
- Land only for 9% HTC only requests, regardless of Buyer/Seller Identity of Interest; or
- Single family homes (one- to four-family) that are aggregated under one loan. Minnesota Housing will use the assessed value unless the Borrower requests an appraisal for determining acquisition cost as defined in this guide; or
- Property on tribal lands

8.02 Prior to Closing-LMIR Amortizing Loans

HTC	LMIR	Deferred
	X	

For LMIR Amortizing Loans, an appraisal engaged by Minnesota Housing is required prior to obtaining final Mortgage Credit Committee approval.

- Two hypothetical values are required, and the lesser of the two values will be used to determine the loan-to-value:
  - As-completed and stabilized, subject to restricted rents
  - As-completed and stabilized, assuming market rate rents
- In addition, for LMIR Amortizing Loans that are sized to also include proceeds from Tax Increment Financing (TIF), the total value will include the appraised value as described above, plus the present value of the remaining net tax increments, as determined by third-party documentation, such as a TIF agreement, or final TIF analysis.
- Maximum Loan-to-Cost (LTC) /Loan-to-Value (LTV)
  - Subsidized properties (at least 90 percent Section 8) 87 percent
  - Affordable properties 87 percent

Generally, plans and specifications must be at least 50 percent complete for the appraiser to adequately establish the “as-completed” value.

8.03 Prior to Closing-Deferred Loans

HTC	LMIR	Deferred
		X

For Deferred Loans, Minnesota Housing requires an appraisal prior to closing similar to that required for LMIR Amortizing Loans (above). Borrowers should discuss this requirement with their assigned underwriter and if appropriate, a waiver to use another lender’s appraisal may be approved at Minnesota Housing’s sole discretion. For developments that are predominantly supportive housing with little or no operating income, the As Complete and Stabilized appraisal may be waived at Minnesota Housing’s sole discretion.

Developments with Deferred Loans that are exempt from this requirement include:

- Single family homes (one- to four-family) that are aggregated under one loan. Minnesota Housing will use the assessed value unless the Borrower requests an appraisal.
- Property on tribal lands

8.04 Appraisal Expiration Period

HTC	LMIR	Deferred
X	X	X

For appraisals used to support the acquisition costs, the appraisal will be valid for funding awards made within 12 months from the effective date of the report.

For LMIR Amortizing Loans, the effective date of the appraisal must be within six months of closing or execution of the End Loan commitment.

For Deferred Loans, the effective date of the appraisal must be within 12 months of closing or End Loan commitment.

All costs incurred for the appraisal, including any revisions and updates, will be the responsibility of the applicant.

8.05 4% Housing Tax Credit (HTC) – Issuance of a Preliminary Determination Letter

An appraisal is required to support the acquisition price and will be used by Minnesota Housing to size funding awards, including 4% HTCs, subject to the exemptions identified in Section 8.01 of this document. Developments that are requesting a Preliminary Determination Letter and that are not receiving Minnesota Housing Deferred Loans or amortizing first mortgage loans can submit a lender approved as-is appraisal in lieu of a Minnesota Housing ordered appraisal. Minnesota Housing reserves the right to engage a Minnesota Housing ordered appraisal at the Borrower's expense if the submitted appraisal is determined to not be acceptable.

Chapter 9 – Types of Sources

9.01 Amortizing Loans

HTC	LMIR	Deferred
	X	

Low Moderate Income Rental (LMIR)

Minnesota Housing offers amortizing first mortgage loans with fixed interest rates and terms up to 40 years under the LMIR program. LMIR Amortizing Loans may be underwritten with a 17-year term and 30-40 year amortization. All LMIR loans (both Amortizing and Bridge) must be in first lien position.

HUD Risk-sharing Mortgage Insurance is typically required for LMIR Amortizing Loans. Minnesota Housing generally insures at Level I (HUD insures 50 percent of the loan). If Minnesota Housing determines that HUD Level II (up to 90 percent) insurance is appropriate, more stringent underwriting requirements apply.

Refinance Loans

Refinance loans do not involve a construction period and the cost of rehabilitation may be funded into escrows and disbursed within 12 months. To be eligible for this structure:

- Adequate upfront and ongoing reserves are budgeted to fund the capital needs identified in a Property Needs Assessment/Capital Needs Assessment and approved by a Minnesota Housing architect, and;
- The cost of repairs does not exceed $40,500/unit

Existing Guarantors are expected to remain in place following the refinance.

Streamlined Refinance

Existing HUD risk-sharing loans may be refinanced under the Streamlined Refinance loan product. This streamlined process allows faster processing time and has fewer due diligence requirements.

Refer to the LMIR/FFCC Guide for more information.

FHA/HUD MAP Programs

Minnesota Housing is an approved HUD Multifamily Accelerated Processing (MAP) lender, which allows Minnesota Housing to underwrite Federal Housing Administration (FHA) fully insured first mortgages using the223(f) program for acquisition and refinance transactions as well as the 221(d)(4) program for new construction or substantial rehabilitation. Loans underwritten under these programs must follow the underwriting and processing requirements as outlined in the HUD MAP Guide.

Please refer to the Amortizing Mortgages webpage for more information on our loan programs, including current interest rates.

9.02 Deferred Loans

HTC	LMIR	Deferred
		X

Deferred Loans are generally non-amortizing loans structured with 30-year terms at 0-1 percent interest. Payment of principal and accrued interest is due on the date of loan maturity. Longer term maturities may be considered when needed to accommodate other funding sources.

Minnesota Housing Deferred Loan debt will only be used for and based upon the financing gap on affordable (rent restricted) units.

9.03 Cash Flow Note

HTC	LMIR	Deferred
		X

Minnesota Housing's Deferred Loans may require an annual payment based on year-end Surplus Cash as adjusted per the calculation below.

For newly funded developments, including those receiving HTCs, the annual payment is equal to 20 percent of the amount by which eligible cash exceeds $50,000 per year. It has been agreed upon that cash flow payments will first be applied to Deferred Loans from the Family Housing Fund and the Greater Minnesota Housing Fund until paid in full, and then to the remaining Deferred Loans containing cash flow provisions on a pro rata basis.

Annual Cash Flow Payment Calculation

- Surplus Cash is defined in Section 13 of the HUD Regulatory Agreement for Multifamily Projects (Form 92466M).
- Surplus Cash is calculated using HUD's Computation of Surplus Cash, Distributions and Residual Receipts (Form 93486), when there is a HUD first mortgage, or it is calculated using Minnesota Housing's Computation of Surplus Cash Form.

Eligible cash is:

- Surplus Cash, plus any dividends or distributions made during the fiscal year
- Less any outstanding:
  - Credit adjusters
  - Limited partner asset management fees
  - Operating reserve account replenishment
  - First mortgage required debt service reserve establishment or replenishment
  - Approved general or limited partner loans or advances
  - Deferred Developer Fees, including interest not exceeding the applicable federal rate

The annual cash flow payment is equal to 20 percent of the amount by which eligible cash exceeds $50,000 per year.

Seller loans, whether from related- or third-parties, will be reviewed for repayment priority on a case by case basis.

Minnesota Housing will determine, at its sole discretion, what items in the proposed cash flow distribution are allowable in the calculation of eligible cash. Items intended to provide additional funds to the general partner or that substantially divide out all remaining cash flow from operations, including but not limited to above market rate partner loans, general partner fees such as partnership management or incentive fees, etc., are intentionally excluded.

Borrower's submission, on an annual basis for each fiscal year, will include:

- Audited financial statements, including a schedule of distributions
- HUD Computation of Surplus Cash, Distributions and Residual Receipts (Form 93486) or Minnesota Housing's Computation of Surplus Cash Form

NOTE: Developments with more than 75 percent supportive housing or HPH units are exempt from Cash Flow Note provisions.

Total payments due must never exceed 75 percent of available Surplus Cash.

9.04 Bridge Loan

HTC	LMIR	Deferred
	X	X

Bridge Loans are commonly required to bridge HTC pay-ins or other funds not available during construction. These loans ensure sufficient funds will be available to fund the development costs in a timely manner through completion of construction ("Closing In Balance"). Refer to Chapter 11 of this document regarding closing in balance; minimum up front equity and minimum up front Bridge Loan proceeds requirements. The following requirements apply to Bridge Loans when Minnesota Housing's LMIR Amortizing Loan, LMIR Bridge Loan and/or Minnesota Housing's Deferred Loans are used to finance the development.

- All Minnesota Housing LMIR loans, including LMIR Bridge Loans must be in first mortgage lien position.
- Minnesota Housing's LMIR Bridge Loan will generally be sized to not exceed 70 percent of the total anticipated equity pay-in as described in the LPA.

LMIR Bridge Loan funded with tax-exempt bond proceeds

- If a LMIR Bridge Loan is funded with the proceeds of Minnesota Housing tax-exempt bond proceeds structured to meet the requirements to qualify for 4 percent HTCs:
    - An assignment of the general partner's interest in the Limited Partnership (LP) is required.
    - The LMIR Bridge Loan must be fully guaranteed by one or more individuals or entities approved by Minnesota Housing.
    - Other collateral or security may be approved, or required, at the Agency's sole discretion.
    - The LMIR Bridge Loan, or the portion funded with tax exempt bonds may be further limited at the Agency's direction.

Third-party Bridge Loans co-existing with Minnesota Housing LMIR Amortizing or LMIR Bridge Loans

Bridge Loans provided by a third-party must be in a subordinate mortgage lien position to any co-existing LMIR Amortizing or LMIR Bridge Loan. Alternative security for third-party Bridge Loans, including assignment of HTC equity, must be discussed prior to, and may require, Minnesota Housing approval.

Third party Bridge Loans co-existing with Minnesota Housing Deferred Loans

Bridge Loans provided by a third-party may be in a senior mortgage lien position to a Minnesota Housing Deferred Loan. Lien position and alternative security for third party Bridge Loans, including assignment of HTC equity should be discussed with Minnesota Housing prior to final Mortgage Credit Committee approval.

Third-party Bridge Loans with Minnesota Housing LMIR Amortizing Loan End Loan

For third-party Bridge Loans requiring first mortgage lien priority or otherwise in conflict with Minnesota Housing's loan requirements, Minnesota Housing may provide a commitment for a future LMIR Amortizing Loan that will close after completion of construction ("End Loan"). It is a condition of the Minnesota Housing closing that the third-party Bridge Loan be fully paid-off and the mortgage lien be released at or prior to closing of the LMIR Amortizing Loan. Particular attention should be paid to the timing of the equity pay-in structure to ensure compliance with the LMIR End Loan Commitment and HUD Risk-share Firm Commitment expirations, if any.

9.05 Balloon Mortgages

HTC	LMIR	Deferred
X	X	X

To achieve long-term viability in developments where Minnesota Housing has invested funding or HTCs, Minnesota Housing strongly encourages long-term, fully-amortizing, first mortgages; however, Minnesota Housing will consider proposals with balloon mortgages, subject to mitigating factors (e.g., overall development sources and uses, projected loan-to-value at refinancing, and other risk factors) at the sole discretion of Minnesota Housing. Minnesota Housing LMIR Amortizing Loans may be underwritten with a 17-year term and 30-40 year amortization at Minnesota Housing's sole discretion.

9.06 Sales Tax Rebate

HTC	LMIR	Deferred
X		X

All developments receiving HTCs or Deferred Loan funding from Minnesota Housing that are eligible for a Sales Tax Rebate must participate. An estimate of the Sales Tax Rebate will be considered a source used to size HTC and Deferred Loan awards. Obtaining and including Sales Tax Rebates as a source is encouraged for all 4% HTC proposals. The Sales Tax Rebate estimate is not basis eligible and will be removed from basis on an HTC development. The Sales Tax Rebate must be bridged. The Sales Tax Rebate will be used first to pay back the source used to bridge the rebate and any excess Sales Tax Rebate may be used to pay the Deferred Developer Fee and/or may be required to be deposited into a development reserve at Minnesota Housing's discretion.

9.07 Energy Rebates

HTC	LMIR	Deferred
X		X

All developments receiving HTCs or Deferred Loan funding from Minnesota Housing must provide an Energy Rebate Analysis. The estimated energy rebate will be considered a source used to size HTCs and Deferred Loan awards. Obtaining and including Energy Rebates as a source is encouraged for all 4% HTC proposals. The energy rebate may or may not be basis eligible; consult your certified public accountant for basis eligibility. The energy rebate must be bridged. The energy rebate will be used first to pay back the source used to bridge the rebate and any excess energy rebate funds may be used to pay the Deferred Developer Fee and/or be required to be deposited into a development reserve, at Minnesota Housing's discretion. Requirements and guidelines for the Energy Rebate Analysis can be found in Minnesota Housing's Rental Housing Design/Construction Standards (Chapter 8 – Sustainable Housing).

Chapter 10 – Relocation and Involuntary Displacement

HTC	LMIR	Deferred
X	X	X

All existing developments selected during Minnesota Housing's annual Consolidated RFP and that are using Minnesota Housing financing for rehabilitation activities must submit a Relocation Plan that addresses both temporary relocation (including in-place displacement) and permanent displacement. Minnesota Housing has created the principles identified within this document that should be considered for all rehabilitation proposals that will include any temporary relocation. These principles do not apply to servicing requests on existing loans.

The purpose of these principles is to help in the development of a Relocation Plan for temporary relocation scenarios. For the purpose of this document, temporary relocation includes in-place displacement, when a tenant will need to be moved from a unit for a short period of time, resulting in a tenant's loss of use of their unit for a portion of the day.

Relocation plans for temporary relocation should incorporate the following principles:

- Provide fair and equitable treatment of tenants who are temporarily relocated from their units for any length of time.
- Consider different needs of the person, including special populations housed at the development that may require reasonable accommodations. For example, reasonable accommodations may include provisions to tenants with specific accessibility needs such as ramps into alternate accommodations.
- To the extent feasible, limit temporary relocation that results in restrictions to units. If temporary displacement results in daytime restrictions to units:
    - Complete such repairs and renovations impacting such tenants as quickly as possible.
    - Tenants should have safe access to sleeping areas, bathrooms and kitchen facilities at the end of each day.
    - Provide reasonable daytime provisions and access to other suitable accommodations while tenants are temporarily out of their unit. For example, provide onsite access to community kitchen facilities, laundry rooms, bathrooms, etc.
- Tenants should be fairly compensated for the time they do not have access to their units. Compensation should be clearly identified and equitable among tenants and could include food vouchers or other monetary stipends.
- It is the Owner's obligation to comply with the requirements and covenants in lease agreements with existing tenants who are subject to temporary relocation.

Chapter 11 – Closing

11.01 Closing in Balance

HTC	LMIR	Deferred
	X	X

All sources of funds must be available at closing, or bridge funding must be provided to pay development costs through construction completion. Equity (including HTC syndication proceeds not bridged) will be held by a title insurance company. For HTC developments with equity pay-ins during construction, Minnesota Housing will, at its sole discretion, determine the need to bridge these funds based on a review of the development, the pay-in schedule, the investor/syndicator, general partner, Developer and general contractor.

In addition to HTC equity proceeds, other sources commonly required to be bridged are TIF, grants from cities, Interim Income (existing properties) energy rebates, and Sales Tax Rebates.

11.02 Minimum HTC Equity Pay-in at Closing

HTC	LMIR	Deferred
	X	X

For all developments funded by HTC equity, the equity investor must pay out at least 20 percent of the total HTC equity at the initial or construction loan closing before any of Minnesota Housing's funds will be advanced. A higher percentage may be required for new syndication entrants to the Minnesota HTC market or on small developments where 20 percent equity is not deemed adequate by Minnesota Housing, at Minnesota Housing's sole discretion.

11.03 Minimum Upfront Bridge Loan Disbursement

HTC	LMIR	Deferred
	X	X

For all developments funded with a third-party Bridge Loan during construction, at least 30 percent of the total Bridge Loan must be disbursed prior to any Minnesota Housing loan proceeds being released. A higher percentage may be required where 30 percent is not deemed adequate by Minnesota Housing.

When a LMIR Amortizing or LMIR Bridge Loan is funded during the construction period, the LMIR funds will generally be funded last after all bridge funding is fully expended, regardless of the cost of other funds.

Minnesota Housing may approve an alternative disbursement order when needed to accommodate other funding sources.

11.04 Cost Savings at the End of Construction

HTC	LMIR	Deferred
X	X	X

Specific use of any cost savings at the end of construction requires approval from Minnesota Housing and in no case may cost savings be used to increase the approved Developer Fee.

Cost savings remaining at the end of the construction or rehabilitation, if any, may be used at Minnesota Housing's discretion for the following: (i) deposited in the replacement reserve account; (ii) used to reduce Minnesota Housing funding; or (iii) put to another appropriate use for the benefit of the development, as approved by Minnesota Housing.

The use of cost savings to reduce the approved Deferred Developer Fee will only be approved in extraordinary circumstances. Cost savings cannot be used to fund an Incentive Developer Fee if awarded a Minnesota Housing Deferred Loan.

Developments funded with federal funding, such as HOME and NHTF, are not allowed to deposit any cost savings in the replacement reserve account.

Chapter 12 - Fair Housing Policy

HTC	LMIR	Deferred
X	X	X

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

Minnesota Housing's fair housing policy incorporates the requirements of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988, as well as the Minnesota Human Rights Act. Housing providers are expected to comply with the applicable statutes, regulations, and related policy guidance. Housing providers should ensure that admissions, occupancy, marketing and operating procedures comply with non-discrimination requirements.

In part, the Fair Housing Act and the Minnesota Human Rights Act make it unlawful to, because of protected class status:

- Discriminate in the selection/acceptance of applicants in the rental of housing units;
- Discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- Engage in any conduct relating to the provision of housing that otherwise make unavailable or denies the rental of a dwelling unit;
- Make, print or publish (or cause to make, print or publish) notices, statements or advertisements that indicate preferences or limitations based on protected class status;
- Represent a dwelling is not available when it is in fact available;
- Deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions of membership or participation; or
- Engage in harassment or quid pro quo negotiations related to the rental of a dwelling unit.

Minnesota Housing has a commitment to affirmatively further fair housing for individuals with disabilities by promoting the accessibility requirements set out in the Fair Housing Act, which establish design and construction mandates for covered multifamily dwellings and requires housing providers to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

Applicants will be required to submit an Affirmative Fair Housing Marketing Plan (AFHMP) at the time of application, to update the plan regularly and to use affirmative fair housing marketing practices in soliciting renters, determining eligibility and concluding all transactions.

As a condition of funding through Minnesota Housing, housing providers are not permitted to refuse to lease a unit to, or discriminate against, a prospective resident solely because the prospective resident has a Housing Choice Voucher or other form of tenant-based Rental Assistance.

Chapter 13 – Fraud Disclosure and Suspension

HTC	LMIR	Deferred
X	X	X

13.01 Fraud Disclosure

The recipient must report all known or suspected instances of fraud in connection with the awarding or receipt of Minnesota Housing funds to Minnesota Housing's Chief Risk Officer as soon as evidence of fraud is discovered by the recipient. "Fraud" means an intentional deception made for personal gain or to damage another.

13.02 Suspension

By entering into any agreement with Minnesota Housing, accepting any award of funds from Minnesota Housing, or otherwise conducting any business with Minnesota Housing, a party represents that the party or any principal of the party, has not been suspended from doing business with Minnesota Housing pursuant to the Minnesota Housing Finance Agency Board of Directors Participant Suspension Policy. A principal is defined as: (a) an officer, director, owner, partner, principal investigator, or other person within an organization or entity doing business with Minnesota Housing with management or supervisory responsibilities; or (b) a consultant or other person, who: (1) is in a position to handle Minnesota Housing funds; (2) is in a position to influence or control the use of those funds; or (3) occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to be performed under contract with Minnesota Housing. A party must contact Minnesota Housing for a list of all suspended individuals and organizations.

Appendix A – Terms

Term	Definition
Affirmative Fair Housing Marketing Plan (AFHMP)	HUD form 935.2A. Refer to mnhousing.gov >Management page for more information.
Allocating Agency	Any entity authorized by the state of Minnesota and Section 42 to allocate HTCs in Minnesota.
Borrower	An entity who has received an amortizing first mortgage loan or Deferred Loan from Minnesota Housing.
Bridge Loan	Also known as Equity Bridge Loan or Construction Loan. A Bridge Loan provides interim construction financing, “bridging” HTC equity installments that will be paid upon, or after, construction completion. The Bridge Loan may also bridge other sources that will be paid after construction completion such as energy rebates and Sales Tax Rebates.
Buyer/Seller Identity of Interest	A Buyer/Seller Identity of Interest exists when there is a Related Party Transaction.
Cash Flow Note	Some Borrowers may be required to make annual payments on a Minnesota Housing Deferred Loan. A Cash Flow Note explains how the payments are calculated.
Coordinated Entry (CE)	A centralized or coordinated process designed to coordinate program participant intake, assessment, and provision of referrals. Used to prioritize homeless households for housing. Refer also to HPH.
Debt Coverage Ratio (DCR)	A measure of the cash flow available to pay current debt obligations. The ratio states net operating income as a multiple of debt obligations due within one year,
Deferred Developer Fee	Any portion of the Developer Fee that will not be paid with project sources but instead will be paid from available cash flow from property operations.
Deferred Loan	A non-amortizing loan, typically with a term of 30 years or coterminous with the first mortgage (if applicable). Minnesota Housing Deferred Loans typically bear interest of 0-1 percent and are repayable upon loan maturity. Some developments may be required to make annual payments pursuant to a Cash Flow Note.
Developer	Typically a separate legal entity from the Owner, Borrower or Guarantor(s) who may complete the financing and development of a project for a fee.
Developer Fee	A fee paid to the Developer as part of the project soft costs to cover overhead, labor and other project related operational expenses born by the Developer during the project.
Development Services Agreement	A contract between the Owner of a development and a third-

	party Developer.
Minnesota Department of Human Services (DHS)	The state of Minnesota agency that administers the Housing Support Rental Assistance program.
Eligible Mortgagor	A nonprofit or cooperative housing corporation; the Department of Administration for the purpose of developing community-based programs as defined in section 252.50; a limited profit entity or a builder as defined by the agency in its rules, which sponsors or constructs residential housing as defined in subdivision 7; or a natural person of low- or moderate-income, except that the return to a limited dividend entity shall not exceed 15 percent of the capital contribution of the investors or such lesser percentage as the agency shall establish in its rules, provided that residual receipts funds of a limited dividend entity may be used for agency-approved, housing-related investments owned by the limited dividend entity without regard to the limitation on returns. Owners of existing residential housing occupied by renters shall be eligible for rehabilitation loans, only if, as a condition to the issuance of the loan, the Owner agrees to conditions established by the agency in its rules relating to rental or other matters that will ensure that the housing will be occupied by persons and families of low- or moderate-income. The agency shall require by rules that the Owner give preference to those persons of low- or moderate-income who occupied the residential housing at the time of application for the loan.
End Loan	A permanent loan that is funded after completion of construction, at the time of repayment of any construction/bridge financing.
Energy Rebate Analysis	A report of energy rebates being considered/pursued for a development.
Equity Cash Out	Defined as any refinance or restructure proposal that includes equity being taken out, including transactions that are related party acquisitions and limited partner buy outs.
Extended Use Period	The term of the Declaration of Land Use Restrictive Covenants for Low-Income Housing Tax Credits under the HTC program. The first fifteen years are referred to as the “Initial Compliance Period” and years 16 and onward are referred to as the Extended Use Period.
Funding Partner	Funding Partners work closely with Minnesota Housing and in coordination with Minnesota Housing’s annual Multifamily Consolidated Request for Proposals (RFP) process. Funding Partners include Greater Minnesota Housing Fund, the Metropolitan Council, the Metro HRA, and the St. Paul PHA.
Guarantor	The entity or individual who signs the Guaranty.
Guaranty	Available upon request from Minnesota Housing staff.
Housing Assistance Payments (HAP)	A HUD Rental Assistance Contract under the Project Based

	Section 8 Rental Assistance Program.
HOME Investment Partnerships Program (HOME)	A federal program administered by Minnesota Housing (as well as others).
Housing Support	Formerly known as Group Residential Housing (GRH), is a state-funded income supplement program that assists low-income individuals who have a disability or are homeless. Housing Support room and board payments are made directly to the provider of housing on behalf of the eligible person. Providers in many different types of housing may enter into a Housing Support agreement with their county. The program is administered by Minnesota Department of Human Services (DHS).
Housing Choice Voucher	The Housing Choice Voucher program provides tenant-based Rental Assistance. The participant is free to choose any housing that meets the requirements of the program and is not limited to units located in subsidized housing projects. Housing Choice Vouchers are administered locally by public housing agencies (PHAs). The PHAs receive federal funds from the U.S. Department of Housing and Urban Development (HUD) to administer the voucher program.
High Priority Homeless (HPH)	Formerly known as Long -term Homeless or LTH. Households prioritized for permanent supportive housing by the Coordinated Entry system.
Housing Tax Credits (HTC)	Also known as Low Income Housing Tax Credit (LIHTC), the Federal Tax Reform Act of 1986 created the Housing Tax Credit (HTC) Program (refer to Section 42 of the Internal Revenue Code) for qualified residential rental properties. The HTC Program offers a reduction in tax liability to owners and investors in eligible low-income rental housing projects involving new construction, rehabilitation or acquisition with rehabilitation.
U.S. Housing and Urban Development (HUD)	A cabinet department that administers programs that provide housing and community development assistance.
HUD Risk-sharing Mortgage Insurance	In order to minimize Minnesota Housing's risks, permanent LMIR Amortizing Loans typically obtain mortgage insurance through HUD's Risk-sharing Program. Under Minnesota Housing's Risk-sharing Agreement with HUD, HUD contracts to reimburse Minnesota Housing for a portion of the loss from any defaults that occur while the insurance is in force. In this way, Minnesota Housing is able to effectively increase its financing capacity. In addition, Minnesota Housing utilizes the program as an incentive to partner with HUD to preserve and renew expiring Section 8 contracts. Level I: HUD's insured portion is 50 percent Level II: HUD's insured portion is up to 90 percent.

Buyer/Seller Identity of Interest	A Buyer/Seller Identity of Interest exists when there is a Related Party Transaction.
Identity of Interest with the Contractor	Those situations as described in Section 4.01
Incentive Developer Fee	A fee to a Developer that is in addition to the Developer Fee included in the development costs.
Interim Income	Cash flow from an existing property while it is undergoing rehabilitation and is not required to make payments on amortizing debt.
Limited Partnership (LP)	A form of partnership similar to a general partnership, except that where a general partnership must have at least two general partners (GPs); an LP must have at least one GP and at least one limited partner.
Limited Partnership Agreement (LPA)	A document that establishes the terms of the partnership and the agreements between partners. In HTC developments, the LPA stipulates the timing and conditions for pay-ins of HTC equity, reserves and the Developer Fee.
Low Income Rental Classification (LIRC)	Enacted pursuant to Minnesota Statutes Section 273.128. This results in a class rate reduction of up to 40 percent for qualifying units in some rent and income-restricted properties. Only those rental properties subsidized under a federal or state government program or meeting certain rent and income restrictions are eligible for the lower class rate.
Low and Moderate Income Rental (LMIR) Amortizing Loan	Provides long-term amortizing mortgage debt for multifamily rental housing affordable to low- and moderate-income Minnesotans. Long-term, fixed-rate mortgage loans are available for financing new construction, stabilization of existing properties and for the preservation of existing federally assisted rental housing.
Low and Moderate Income Rental (LMIR) Bridge Loan	When LMIR loans are used in a tax-exempt bond transaction, Minnesota Housing may issue short-term bonds to fund a LMIR Bridge Loan to meet the 50 percent test in order for the development to qualify for 4% HTCs. The LMIR Bridge Loan will be used during construction period and must be in first lien position. LMIR Bridge Loans may also be funded with taxable bond proceeds or other investment grade resources, at the Agency's discretion.
Management and Operating (M&O) Budget	The total operating expenses for a multifamily rental property not including real estate taxes and reserves.
Mortgage Credit Committee	A cross-divisional management group of Minnesota Housing that approves credit analysis, ownership structures and financing of projects selected for multifamily loans and related matters.
Net Construction Costs	Construction costs not including contractor profit, general requirements and contractor overhead.
National Housing Trust Fund (NHTF)	A federal, affordable housing production program to increase

	and preserve the supply of decent, safe and sanitary affordable housing for extremely low- and very low-income households, including homeless families.
Operating Deficit Escrow (ODE)	A reserve required for all developments funded with a LMIR Amortizing Loan.
Owner	An entity or person who holds title to the real property upon which the project is located.
People with Disabilities (PWD)	Minnesota Housing's Self-scoring Worksheet defines PWD as persons with any of the following: • A serious and persistent mental illness as defined in Minn. Stat. § 245.462, subdivision 20, paragraph (c); or • A developmental disability as defined in United States Code, Title 42, Section 6001, paragraph (5), as amended; or • Assessed as drug dependent as defined in Minn. Stat. § 254A.02, subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minn. Stat. § 254A.02, Subdivision 2; or • A brain injury as defined in Minn. Stat. § 256B.093, Subdivision 4, paragraph (a); or • Permanent physical disabilities that substantially limit major life activities, if at least 50% of the units in the project are accessible as provided under Minnesota Rules Chapter 1341.
Payment in Lieu of Taxes (PILOT)	Made to compensate a local government for some or all of the tax revenue that it loses because of the nature of the ownership or use of a particular piece of real property. Usually it relates to the foregone property tax revenue.
Preliminary Determination Letter	Issued by the HTC Allocating Agency indicating that a proposal satisfies the requirements for eligibility for HTC through the issuance of tax exempt bonds. Also known as "42m Letter."
Processing Agent	Also known as Development Consultant. The Processing Agent for a development is a third party unrelated to the Sponsor who the Developer contracts with to prepare funding applications and/or manage submittals of due diligence.
Related Party Transaction	Acquisition of a property where there is a common or related entity as part of the ownership structure of both the buyer and seller.
Relocation Plan	Minnesota Housing requires the Developer to submit a Relocation Plan for any temporary or permanent displacement of tenants. Projects that are HUD assisted are required to submit a Relocation Plan in compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA).
Rental Assistance	A revenue source used to pay a portion of the tenant's monthly rent. Rental Assistance may be either project-based or tenant-based.

Sales Tax Rebate	A rebate received from the Minnesota Department of Revenue. When an entity that is exempt from a sales and use tax on their own purchases appoints a contractor or subcontractor as its purchasing agent in accordance with Minnesota rules, that contractor or subcontractor may make otherwise taxable purchases exempt from a sales or use tax for use on a construction contract. Non-profit Sponsors are required to include a Sales Tax Rebate as a source of funding for any development that is requesting Minnesota Housing funding, including HTCs or Deferred Loans.
Section 8 Project-based Rental Assistance (Section 8) Program	Enables more than 2 million people in 1.2 million low-income households to afford modest apartments by contracting with private Owners to rent some or all of the units in their housing developments to low-income families.
Sponsor	An individual or a legal entity that exercises control and decision-making authority over the project.
Surplus Cash	Certain project cash pursuant to the calculation set forth in Section 13 of the HUD Regulatory Agreement for Multifamily Projects (Form 92466M) or Minnesota Housing's Computation of Surplus Cash Form.
Tax Increment Financing (TIF)	A public financing method that is used as a subsidy for redevelopment, infrastructure and other community improvement projects.
Total Development Cost (TDC)	The total budget for the development of an affordable housing development.
Total Mortgageable Cost (TMC)	TMC is TDC less non-mortgageable costs, generally reserves and other costs not required by and payable from Minnesota Housing funds.
Uniform Relocation Act (URA)	The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), passed by Congress in 1970, is a federal law that establishes minimum standards for federally funded programs and projects that require the acquisition of real property (real estate) or displace persons from their homes, businesses or farms.
Workbook	The Multifamily Workbook is the Excel tool used for application and which is updated through loan closing and 8609, if applicable for Minnesota Housing HTCs, first mortgages, Deferred Loans, Rental Assistance and operating subsidies.