MINNESOTA HOUSING

MEETINGS SCHEDULED FOR SEPTEMBER

Minnesota Housing
400 Wabasha Street N. Suite 400
St. Paul, MN 55102

THURSDAY, SEPTEMBER 24, 2020

Finance and Audit Committee Meeting
12:00 p.m.
Conference Call
United States (Toll Free): 1 866 899 4679
Access Code: 532-305-501

Regular Board Meeting
1:00 p.m.
Conference Call
United States (Toll Free): 1 866 899 4679
Access Code: 473-988-685

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, September 24, 2020.

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 or Minn. Stat. 13D.021 are met. 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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400 Wabasha Street North, Suite 400
St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | **TTY:** 651.297.2361
www.mnhousing.gov

Mission

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

Vision

All Minnesotans live and thrive in a safe, stable home they can afford in a community of their choice.

AGENDA
Minnesota Housing Board Meeting
Thursday September 24, 2020
1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. (page 5) Regular Meeting of August 27, 2020
5. **Reports**
   A. **Chair**
   B. **Commissioner**
   C. **Committee**

6. **Consent Agenda**
   A. (page 9) Substantial Amendment of 2020 Annual Action Plan for HUD with HOPWA-CV Funds
   B. (page 11) Selection and Commitment, Low and Moderate Income Rental Program (LMIR)
      - The Greenleaf, D6368, Minneapolis
   C. (page 21) Selection and Commitment, Low and Moderate Income Rental Program (LMIR) and Flexible Financing for Capital Costs (FFCC)
      - Olson Redevelopment I, D0945, Minneapolis
   D. (page 35) Commitment, Low and Moderate Income Rental (LMIR) Program
      - Sabathani Senior Housing, D8212, Minneapolis
   E. (page 53) Modification, Housing Infrastructure Bond (HIB) Loan
      - Exodus II, D8241, Minneapolis
   F. (page 57) Housing Opportunities for Persons with AIDS (HOPWA) Grant Extension and Funding Modification
      - JustUs Health D3621

7. Action Items

A. (page 61) Approval, Revisions to the Emergency and Accessibility Loan Program Procedural Manual

B. (page 103) Approval, Revisions to the Low and Moderating Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs Procedural Guide

C. (page 125) Commitment, Low and Moderate Income Rental Loan (LMIR), and Low and Moderate Income Rental Bridge Loan (LMIRBL)
   - Colonial Square Apartments, D0729, Mankato

D. (page 143) Loan and Selection and Commitment, Flexible Financing for Capital Costs Loan (FFCC)
   - Birchwood Apartments, D8198, Duluth

8. Discussion Items

A. (page 159) Equity and Inclusion

B. Covid-19 Update

9. Information Items

A. (page 161) Post Sale Report, Housing Infrastructure Bonds, 2020 Series ABCD

10. Other Business

None.

11. Adjournment

DRAFT Minutes
Minnesota Housing Board Meeting
Thursday, August 27, 2020
1:00 p.m.
Via Conference Call

1. **Call to Order.**
Chair DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance Agency at 1:03 p.m.

2. **Roll Call.**
Members Present via conference call: Chief Executive Benjamin, Auditor Julie Blaha, Chair John DeCramer, Craig Klausing, Stephanie Klinzing, and Terri Thao.
Minnesota Housing Staff present via conference call: Tal Anderson, Vi Bergquist, Sara Bunn, Kevin Carpenter, Vicki Farden, Rachel Franco, Jennifer Ho, Kasey Kier, Dan Kitzberger, Greg Krenz, Tresa Larkin, Debbi Larson, Song Lee, James Lehnhoff, Nira Ly, John Patterson, William Price, Paula Rindels, Lael Robertson, Rachel Robinson, Anne Smetak, Corey Strong, Emily Strong, Kim Stuart, Jodell Swenson, Susan Thompson, Mike Thone, Ted Tulashie, Kayla Vang, Alyssa Wetzel-Moore, and Kristy Zack.
Others present via conference call: Michelle Adams; Kutak Rock; Ramona Advani, Office of the Minnesota State Auditor; Melanie Lien, Piper Sandler & Co.; Anne Mavity, Minnesota Housing Partnership.

3. **Agenda Review**
No changes.

4. **Approval**
Regular Meeting Minutes of July 23, 2020 and Special Meeting Minutes of August 7, 2020
Motion: Chief Executive Benjamin moved to approve the July 23 Regular Meeting Minutes and August 7, Special Board Meeting Minutes. Seconded by Terri Thao. Motion carries 6-0. Roll call was taken. All were in favor.

5. **Reports**
A. **Chair**
None.

B. **Commissioner**
Commissioner Ho shared the following with the board:
- On August 10, Tasha Merritt, joined Minnesota Housing as a Homeownership Lending Program Manager in the Single Family Division.
- Earlier this month we notified staff that we will be working from home for the remainder of 2020.
- On August 5, we had an all staff listening session to talk about the strains of telework and back-to-school uncertainties/new options for working less, but all impact pay.
- On August 19, I traveled to Long Prairie and attended the 2nd Avenue Apartments Ground Breaking. This project highlights workforce housing and Legislative investment in Todd County.

- I was disappointed to see the Senate vote not to approve the appointment of my fellow Commissioner, Nancy Leppink, to the Department of Labor and Industry. My appointment as commissioner has not yet been voted on by the Senate.
- I was awarded the Sheila Crowley Housing Justice Award from the National Low Income Housing Coalition. This award is named for former NLIHC President & CEO Sheila Crowley. The Crowley award goes to an outstanding leader who has elevated the conversation around affordable housing for the lowest income people in America.
- We are continuing the internal work on equity, especially race equity, and very aware of the anger and pain over the shooting of Jacob Blake, and last night's chaos in Minneapolis triggered by a misunderstanding of whether there had been a police shooting.
- Pursuant to the delegated authority afforded to the commissioner at the August 7, 2020, special board meeting, I exercised the authority delegated to me to approve the Program Guide for the COVID-19 Housing Assistance Program. The Program Guide is now posted on our website. The team will continue to review and make refinements as the program advances to better support the grantees and ultimately the households applying for assistance.
- United Way 211 is providing the state-wide intake service where people can call, text, or go to their website to access the online application system hosted by HousingLink. With 44 grant administrators across the state, the 211 service has been instrumental in connecting households seeking assistance with an administrator that serves their area.
- As of last night and only three days into the program, the online application system has received more than 5,000 applications representing approximately $5.5 million of housing assistance requests (rental, mortgage, utilities).

C. **Committee**

Earlier today, the Finance and Audit Committee met to review the Fiscal 2020 Financial Audit, and Federal Program Single Audit; Fiscal 2020 Interfund Transfers; and Fiscal 2020 Report of Transfer Funds for Reimbursement of Administrative Expenses. Auditors from RSM joined the meeting to review the audits

6. Consent Agenda

A. Commitment, Low and Moderate Income Rental Loan (LMIR), Flexible Financing for Capital Costs Loan (FFCC), and Low and Moderate Income Rental Bridge Loan (LMIRBL); Reconfirmation and Modification, HOME loan commitment; Approval, Waiver of the Predictive Cost Model 25% Threshold
- Le Sueur Meadows II, D8108, Le Sueur, MN

B. Extension of Grant Contract, Workforce Housing Development Program
- City of Luverne, D8058

C. Housing Trust Fund (HTF) Operating Subsidy (OS) Grant Amendments
- Kimball Court, D2475
- American House, D3192

Motion: Stephanie Klinzing moved to approve the Consent Agenda Items A-C. Seconded by Craig Klausing. Roll Call was taken. Motion Carries 6-0.

7. Action Items

Stephanie Klinzing requested that Consent Agenda Item D move to Action Items.

D. **Adoption, Revision to the Board Resolution Establishing the Finance and Audit Committee**

Anne Smetak presented to the board a request for adoption of a revised Finance and Audit Committee resolution. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Stephanie Klinzing moved Adoption, Revision to the Board Resolution Establishing the Finance and Audit Committee. Seconded by Terri Thao. Roll call was taken. Motion carries 6-0. All were in favor.

A. Approval, Revisions to the Rehabilitation Loan Program Procedural Manual

Staff presented to the Board a request for approval of the revised Rehabilitation Loan Program Procedural Manual. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Stephanie Klinzing moved Approval, Revisions to the Rehabilitation Loan Program Procedural Manual. Seconded by Auditor Blaha. Roll call was taken. Motion carries 6-0. All were in favor.

B. Approval, Enhanced Financial Capacity Homeownership Program Selections

Que Vang presented to the Board a request for approval of the Enhanced Financial Capacity Homeownership Program (Homeownership Capacity Program) funding recommendations in the following categories:

- $ 765,390 Program funding for 16 applicants for year 2 (2020-2021)
- $ 234,610 Homeownership Capacity Incentive Fund and training to maintain Financial Capability Certification.

Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Craig Klausing moved Approval, Enhanced Financial Capacity Homeownership Program Selections. Seconded by Chief Executive Benjamin. Roll call was taken. Motion carries 6-0. All were in favor.

C. 2020 Capacity Building Initiative Request for Proposal

Alyssa Wetzel-Moore presented to the Board a request for approval of the 2020 Capacity Building Initiative Request for Proposal (RFP). The program will provide up to $40,000 in funding for one-year projects that will build organizational capacity to address housing disparities, build power in communities most impacted by housing challenges and disparities, pilot innovative solutions to housing challenges, and support inclusive and equitable communities.

Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Terri Thao moved 2020 Capacity Building Initiative Request for Proposal. Seconded by Craig Klausing. Roll call was taken. Motion carries 6-0. All were in favor.

D. Resolution authorizing the issuance and sale of Rental Housing Bonds, 2020 Series B
- Le Sueur Meadows

Kevin Carpenter presented to the Board a request for authorization to issue short-term fixed rate tax-exempt bonds under the existing Rental Housing bond indenture. The bonds will be issued in an amount not to exceed $5,665,000, and will be used to finance the acquisition, renovation and construction of a 39-unit rental housing development located in Le Sueur, Minnesota. The Agency expects to price and issue these Rental Housing bonds in September or

October; the attached Preliminary Official Statement describes the entire transaction. Michelle Adams, Kutak Rock joined the meeting to review the board resolution.
Chair DeCramer opened up the discussion. There were no questions from Board members.
Motion: Stephanie Klinzing moved Resolution authorizing the issuance and sale of Rental Housing Bonds, 2020 Series B Le Sueur Meadows. Seconded by Terri Thao. Roll call was taken. Motion carries 6-0. All were in favor.

8. Discussion Items

A. **4th Quarter FY 2020 Financial Reporting Package**

Kevin Carpenter reviewed the 4th Quarter FY 2020 Financial Reporting Package.

B. **Third Quarter 2020 Progress Report: 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan**

John Patterson reviewed the 3rd Quarter 2020 Progress Report of the 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan.

C. **Covid-19 Update**

Jennifer Ho and Kevin Carpenter provided the board with an update on Covid-19 impacts on business operations and the financial markets.

9. Information Items

A. Semi-annual Variable Rate Debt and Swap Report

B. Post-Sale Report, Homeownership Finance Bonds (HFB) 2020 Series D (Taxable)

C. Semi-Annual Chief Risk Officer Report

10. Other Business

A. Auditor Blaha put forth a motion to the board a request for a formal recommendation of Commissioner Ho to be confirmed by the Minnesota State Legislature. Emphatically recommend the confirmation of Jennifer Ho. Commissioner Ho has done an excellent job, providing expertise, her approach to servant leadership is essential during a time when housing has never been more important, and we need to have effectiveness and consistency in this role. Chair DeCramer opened up the discussion. The board asked questions and staff provided answers. Seconded by Chief Executive Benjamin. Roll call was taken. Motion carries 6-0. All were in favor

11. Adjournment

The meeting was adjourned at 2:50 p.m.

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John DeCramer, Chair

MINNESOTA HOUSING

Board Agenda Item: 6.A
Date: 9/24/2020

Item: Substantial Amendment of 2020 Annual Action Plan for HUD with HOPWA-CV Funds

Staff Contact(s):
Jessica Deegan, 651.297.3120, Jessica.deegan@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff seeks approval of a substantial amendment to the State of Minnesota's Annual Action Plan for Federal Fiscal Year 2020 to include Minnesota Housing's supplemental allocation of the Housing Opportunities for Persons with AIDS (HOPWA) CARES Act funding.

Fiscal Impact:
The substantial amendment adds $36,749 to the Annual Action Plan for HOPWA to the existing FFY 2020 allocations.

Meeting Agency Priorities:
- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):
- Background

Minnesota Housing received a supplemental allocation of $36,749 under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) (Pub. L. No. 116-136), which was signed into law on March 27, 2020. The supplemental funds provided under the CARES Act are to be used by HOPWA grantees as additional funding to maintain operations and for rental assistance, supportive services, and other necessary actions, in order to prevent, prepare for, and respond to coronavirus.

The HOPWA CARES Act funds will substantially amend the state of Minnesota’s Annual Action Plan to HUD, which the board approved in May of this year. This amendment is subject to a 5 day public comment period, which occurred September 18-24.

Minnesota Housing will continue partnership with JustUs Health, who is the project sponsor of the current HOPWA allocations, to administer the CARES Act funds. JustUs will utilize these funds to expand their existing program of short-term rent, mortgage and utility assistance payments to prevent homelessness. However, based on client need, may utilize the other eligible uses of the funds on a case by case basis, as approved by Minnesota Housing:

- assisting HOPWA eligible households in accessing essential services and supplies such as food, water, medications, medical care, and information;
- educating assisted households on ways to reduce the risk of getting sick or spreading infectious diseases such as COVID-19 to others;
- providing transportation services for eligible households, including costs for privately owned vehicle transportation when needed, to access medical care, supplies, and food or to commute to places of employment;
- providing nutrition services for eligible households in the form of food banks, groceries, and meal deliveries;
- providing lodging at hotels, motels, or other locations to quarantine HOPWA-eligible persons or their household members;
- providing short-term rent, mortgage, and utility (STRMU) assistance payments to prevent homelessness of a tenant or mortgagor of a dwelling for a period of up to 24 months; and
- purchasing equipment that will enable project sponsor to better serve clients remotely.

After the substantial amendment is submitted, the agency will execute a new project sponsor agreement JustUs within 14 days of executing a grant agreement with HUD.

MINNESOTA HOUSING

Board Agenda Item: 6.B
Date: 9/24/2020

Item: Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
- The Greenleaf, D6368, Minneapolis, MN

Staff Contact(s):
Caryn Polito, 651.297.3123, caryn.polito@state.mn.us

Request Type:

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

Summary of Request:
Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to $3,250,000.

All commitments are subject to the terms and conditions of the agency term letter.

Fiscal Impact:
LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses, and the loan will generate additional fee income. In addition, as part of this refinancing transaction, the Agency's existing FFCC loan, initially funded out of Pool 3, will be restructured to include a fixed repayment of $10,000 annually.

Meeting Agency Priorities:

☐ Improve the Housing System
☒ Preserve and Create Housing Opportunities
☐ Make Homeownership More Accessible
☐ Support People Needing Services
☐ Strengthen Communities

Attachments:

- Development Summary
- Resolution
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY

SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS

Project Information				
Development Name	The Greenleaf		**D#6368**	**M#18389**
Address	2743 Lyndale Avenue South			
City	Minneapolis	**County**	Hennepin	
Date of Selection	September 24, 2020	**Region**	Metro	

A. Project Description and Population Served

- The development is the refinance of 63 units in Minneapolis. It is a four-story elevator building with 33 one-bedroom and 30 two-bedroom units.
- The development will provide general occupancy and workforce housing.
- The households will have incomes at or below 50 percent HOME limits and 60 percent of MTSP.

B. Mortgagor Information

Ownership Entity:	Lyndale Salem Green Limited Partnership
Sponsor:	Mark Lucas and Margaret Lucas
General Partner(s)/ Principal(s):	Brighton Lyndale Development LLC
Guarantor(s):	Mark Lucas and Margaret Lucas

C. Development Team Capacity Review

The sponsors, Mark Lucas and Margaret Lucas, have the experience and capacity to complete the project. The developer has utilized LMIR, tax credits, and other similar financing types in the past.

The property management company, Trellis Management Co. (formerly BDC Management Co.), was established in 1990 and currently manages 47 developments with 3,434 units. Trellis has the capacity to manage this development.

The management company represents a people of color and indigenous-owned/women-owned business enterprise.

D. Current Funding Request

Loan Type	Program/Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction/End Loan
Permanent Amortizing	LMIR / Risk Share	$3,250,000	2.93%	0.125%	35 yrs	35 yrs	End Loan

First Mortgage Loan to Value: 63%

E. Significant Changes Since Date of Selection

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition or Refinance	$3,089,743	$49,044
Construction Costs	0	0
Environmental Abatement	0	0
Professional Fees	$29,000	$460
Developer Fee	$20,000	$317
Financing Costs	$93,460	$1,484
Total Mortgageable Costs	$3,232,203	$51,305
Reserves	$315,000	$5,000
Total Development Cost	**$3,547,203**	**$56,305**

B. Permanent Capital Sources

Description	Amount	Per Unit
First Mortgage	$3,250,000	$51,587
Existing Replacement Reserves	$297,203	$4,718
Total Permanent Financing	**$3,547,203**	**$56,305**

C. Financing Structure

The LMIR first mortgage will have interest at 2.93% with a 35 year term and amortization. The loan will be insured under the HUD Risk-sharing program.

No rehabilitation will occur through this refinance. Reserves will be maintained and are sufficient to fund future repairs based on the capital needs assessment.

D. Cost Reasonableness

There is no rehabilitation as part of this refinance transaction.

SECTION III: UNDERWRITING

A. Rent Grid

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (%, of MTSP or AMI)	Rental Assistance Source
1 BR	10	$856	50%	50%	N/A
1 BR	23	$1,030	60%	60%	N/A
2 BR	4	$1,023	50%	50%	N/A
2 BR	26	$1,223	60%	60%	N/A

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits.

The following are new restrictions under the Minnesota Housing refinance. These do not reflect existing rent and income restrictions for tax credits and deferred loans.

- LMIR:
  - 25 units with rents and incomes at or below 60% MTSP
  - Up to 16 units may have unrestricted incomes
  - 22 units with incomes at or below 100% of the greater of statewide or area median income
  - 38 units with rents at Minnesota Housing determined market

B. Feasibility Summary

All projects are underwritten within the agency's underwriting guidelines, unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- The project maintains positive cash flow for 15 years, with a projected debt coverage ratio (DCR) in year 15 of 1.12.
- The project was underwritten at 5 percent vacancy, with 2 percent income and 3 percent expense inflators.
- $315,000 will be deposited to the property's replacement reserve account for capital needs over the next ten years.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX

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

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide 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:	The Greenleaf
Sponsors:	Mark Lucas and Margaret Lucas
Guarantors:	Mark Lucas and Margaret Lucas
Location of Development:	Minneapolis
Number of Units:	63
Amount of LMIR Mortgage: (not to exceed)	$3,250,000

WHEREAS, Agency staff 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 and rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

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

NOW THEREFORE, BE IT RESOLVED:

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

1. The amount of the LMIR amortizing loan shall not exceed $3,250,000; and

2. The interest rate on the permanent LMIR loan shall be 2.93 percent per annum (subject to change, as set forth in the attached Agency term letter dated August 26, 2020), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 35 year amortization; and

3. The term of the permanent LMIR loan shall be 35 years; and

4. The loan closing shall occur on or before March 31, 2021; and

5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and

7. Mark Lucas and Margaret Lucas shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

8. The sponsor, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 24th day of September 2020

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CHAIRMAN

MINNESOTA HOUSING

400 Wabasha Street North, Suite 400
St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | TTY: 651.297.2361
www.mnhousing.gov

August 26, 2020

Mark Lucas and Margaret Lucas
Lyndale Salem Green Limited Partnership
428 North 1st Street
Minneapolis, MN 55401

RE: Term Letter
The Greenleaf, Minneapolis
MHFA Development #6368, Project #18389

Dear Mr. Lucas and Ms. Lucas:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: Lyndale Salem Green Limited Partnership

General Partner/ Managing Member: Brighton Lyndale Development LLC

Development Description/Purpose: Refinance of a 63-unit affordable housing development located in Minneapolis, Minnesota

Minnesota Housing Loan Type/Terms

Program	Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)
Loan Amount	$3,250,000
Interest Rate	* 2.93%
Mortgage Insurance Premium (%)	0.125% *(first year premium is paid in advance)*
Term	35 years
Amortization/Repayment	35 years
Prepayment Provision	No prepayment first 10 years from date of the Note.
Nonrecourse or Recourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	End Loan
Lien Priority	First

*Subject to change. Loan must close by November 30, 2020 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion.

Origination Fee:	LMIR HUD Risk Share Loan: $65,000 (Payable at loan closing)
Inspection Fee:	Not applicable
Guaranty/Guarantor(s):	Operations Guaranty to be provided by: • Mark Lucas and Margaret Lucas
Operating Deficit Reserve Account:	Not applicable
Rehab Escrow Account:	Not applicable
Replacement Reserve Account:	A replacement reserve will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $2,362.50. The replacement reserve will be held by Minnesota Housing. $315,000 will be deposited to the replacement reserve account at closing. The three remaining TIF payments will be sent directly to Minnesota Housing and will be deposited to the property's replacement reserve account.
Escrows:	Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other Subsidy Agreement:	Not applicable
Rent and Income Requirements:	**LMIR Program** • 26 units with rents and incomes at or below 60% MTSP • Up to 15 units may have unrestricted incomes • 22 units with incomes at or below 100% of the greater of statewide or area median income. • 37 units with rents at Minnesota Housing determined market.

Other Occupancy Requirements: None

Closing Costs: Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.

Expiration Date: The Terms will expire six months from the date of this letter.

Additional Terms:

- Return on Equity: Annual distributions limited to a maximum of 15% of Borrower's Equity, as referenced in the Workbook.

Other Conditions:

- Appraised rent-restricted value of at least $3,735,632
- Deferred loans through City of Minneapolis and Family Housing Fund must be re-subordinated and extended to be coterminous with the new first mortgage.
- A $10,000 annual payment on the FFCC deferred loan will be required.
- The FFCC deferred loan will be extended to be coterminous with the new first mortgage.

Board Approval: Commitment of all loans under the LMIR program is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loan.

Not a Binding Contract: This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau at maggie.nadeau@state.mn.us on or before September 9, 2020.

If you have any questions related to this letter, please contact Caryn Polito at 651.297.3123 or by e-mail at caryn.polito@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

LYNDALE SALEM GREEN LIMITED PARTNERSHIP

By: ______________________________

Its: CHIEF MANAGER, GENERAL PARTNER

Date Accepted: 8/31/2020

Board Agenda Item: 6.C
Date: 9/24/2020

Item: Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) and Flexible Financing for Capital Costs Loan (FFCC)

- Olson Redevelopment I, D0945, Minneapolis, MN

Staff Contact(s):
Paul Marzynski, 651.296.3797, paul.marzynski@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to $13,838,000; and a deferred funding commitment in the amount of up to $1,325,000 under the Flexible Financing for Capital Costs (FFCC) program.

All commitments are subject to the terms and conditions of the agency term letter.

Fiscal Impact:
LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses. The Agency will also earn certain fee income in conjunction with the LMIR loan. The FFCC loan will be funded from Pool 3 resources, and will not earn interest for the agency.

Meeting Agency Priorities:

- ☒ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☒ Strengthen Communities

Attachments:

- Development Summary
- Resolution
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY

SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS

Project Information				
Development Name	Olson Redevelopment I		**D# 0945**	**M# 18315**
Address	1201 Olson Memorial Highway			
City	Minneapolis	**County**	Hennepin	
Date of Selection	September 24, 2020	**Region**	Metro	

A. Project Description and Population Served

- The development represents the preservation of a 100% Project-based Section 8 Housing Assistance Payments (HAP) contract at risk of loss due to critical physical needs. The existing development Olson Townhomes, which is adjacent to the Olson Redevelopment I land parcel, has a HAP contract for 92-units; however, the physical condition of Olson Townhomes has deteriorated to a point where it is not feasible to make sustainable long-term capital repairs putting the HAP contract at risk. Therefore, the sponsor initiated a plan to preserve the HAP contract by constructing 92 new units on vacant land to be split off from the existing property on the northeast side. Upon completion of the apartment building, all residents currently residing in the townhome units, along with the HAP contract, will be transferred to the new building. The sponsor will retain ownership of the vacated townhome property, demolish the townhome buildings, clear the land, and work with the city to redevelop the site for additional, affordable housing in the future.
- The completed Olson Redevelopment I development will consist of a new 92-unit, five-story elevator apartment building with one-, two-, three- and four-bedroom units.
- The development will be a 100% Low Income Housing Tax Credit (LIHTC) property with a 30-year Land Use Restriction Agreement (LURA). Household incomes are restricted to 50% and 60% MTSP levels.
- All 92 units will benefit from project-based Section 8 rental assistance.
- Construction is anticipated to begin in October 2020 and is anticipating opening for residents in September 2021.

B. Mortgagor Information

Ownership Entity:	Olson Redevelopment I Limited Partnership
Sponsor:	Trellis Co.
General Partner(s)/ Principal(s):	Olson Redevelopment I LLC Member: Trellis Co.
Guarantor(s):	Trellis Co.

C. Development Team Capacity Review

The sponsor, Trellis Co. (Trellis), formerly known as Community Housing Development Corporation, has the experience and capacity to complete the project. The developer has utilized agency first mortgages, deferred loans, bridge loans, and low income housing tax credits with proven success.

The property manager, Trellis Management Co, (formerly BDC Management Co., an affiliate of the sponsor), currently manages 47 developments with over 3,400 units. The property manager has the capacity to manage this development.

The project architect, LHB, Inc., has successfully completed similar types of affordable housing developments in the agency's portfolio.

The project general contractor, Frana Companies Inc., has successfully completed many affordable housing developments in the agency's portfolio.

D. Current Funding Request

Loan Type	Program	Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction or End Loan
Permanent Amortizing	LMIR	Housing Investment Fund (Pool 2)	$13,838,000	4.25%	0.125%	40 yrs	N/A	End
Deferred**	FFCC	Housing Affordability Fund (Pool 3)	$1,325,000	0.00%	N/A	40 yrs	Cash Flow	Construction and End

** Interest rate on deferred loans set at 0.00% but may increase up to 1.00%, if requested prior to closing.

First Mortgage Loan to Cost: 48.3% **First Mortgage Loan to Value:** 85.4%

E. Significant Changes since Date of Selection

- First mortgage
  The supportable first mortgage increased from $8,082,000 at the original project selection in August 2019 to $13,838,000. The 71% increase is mostly attributed to a large increase in the underwritten Section 8 contract rents upon HUD's approval of Mark-Up-To-Market rents. The sponsor originally planned to use a HUD 221(d)4 first mortgage; however, the sponsor initiated discussions with Minnesota Housing in October 2019 to secure a Minnesota Housing LMIR first mortgage when the HUD 221(d)4 was no longer viable for this project.
- Acquisition cost
  The project acquisition price decreased $1,550,000. At application, the project was to be acquired for the assumption of the principal and accrued interest of four deferred loans on the townhome property. With improved changes to the capital structure of the project, specifically the increase in the first mortgage loan and additional deferred funding committed by the City of Minneapolis, three of these deferred loans will be paid off at closing; therefore, the acquisition cost of the subject property has been reduced to $393,000, the assumption of city's Affordable Housing Trust Fund (AHTF) deferred loan.

- Agency Deferred Loan Commitments
  At the August 29, 2019 board meeting, the project was selected for a $2,028,000 PARIF deferred loan. With the favorable changes to the capital structure discussed previously, the amount of eligible project costs allowed under the PARIF program is significantly reduced, therefore, staff recommends replacing the previous PARIF selection with a $1,325,000 deferred loan under the Flexible Financing for Capital Costs (FFCC) program.

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition	$393,915	$4,282
Construction Costs	$20,904,000	$227,217
Environmental Abatement	$594,000	$6,457
Professional Fees	$1,572,965	$17,097
Developer Fee	$2,385,000	$25,924
Financing Costs	$55,000	$598
Total Mortgageable Costs	$1,955,878	$21,260
Reserves	$778,539	$8,462
Total Development Cost	**$28,639,297**	**$311,297**

B. Permanent Capital Sources

Description	Amount	Per Unit
LMIR First Mortgage	$13,838,000	$150,413
Equity Proceeds: Minnesota Equity Fund (MEF)	$8,935,585	$97,126
Flexible Financing Cap Cost (FFCC) Loan	$1,325,000	$14,402
CPED AHTF Loan	$1,500,000	$16,304
Met Council LCDA Loan	$516,168	$5,611
Hennepin County AHIF Loan	$400,000	$4,348
Met Council TBRA Load	$610,700	$6,638
MCDA AHTF	$393,915	$4,282
Rebates	$619,928	$6,738
Deferred Developer Fee	$500,000	$5,435
Total Permanent Financing	**$28,639,297**	**$311,297**

C. Financing Structure

- The development will qualify for an estimated $968,700 of annual 4% tax credits, providing an estimated $8,935,585 of equity proceeds from National Affordable Housing Trust (NAHT). The term of the LURA will be 30 years.
- A $20,000,000 construction/bridge loan provided by Greater Minnesota Housing Fund, which is partially funded with $15,000,000 Hennepin County Housing and Redevelopment Authority tax-exempt bonds required to secure the 4% tax credits.

- The LMIR first mortgage of up to $13,838,000 has a 4.25 percent interest rate plus 0.125 percent MIP with a 40-year amortization and a 40-year term will be provided as an end loan.
- The Flexible Financing Capitalized Cost (FFCC) deferred loan of up to $1,325,000 has a 0.00 percent interest rate and will be co-terminus with the LMIR first mortgage term. The interest rate can be set up to 1.00 percent if requested by the limited partner investor prior to closing.
- The City of Minneapolis, Hennepin County, and the Metropolitan (Met) Council are providing over $3,400,000 of additional deferred loans.

D. Cost Reasonableness

- Predictive Cost Model Estimate:

  The budgeted total development cost (TDC) of $311,297 per unit is 11.0% above the $281,000 predictive model cost estimate, which is within the 25% threshold, and therefore does not require board approval.

- Cost Containment:

  The project did not claim cost containment points.

SECTION III: UNDERWRITING

A. Rent Grid

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (%, of MTSP or AMI)	Rental Assistance Source
1BR**	22	$1,245	60% MTSP	60% MTSP	Project-based Section 8
2BR**	23	$1,485	60% MTSP	60% MTSP	Project-based Section 8
3BR**	9	$1,075	60% MTSP	60% MTSP	Project-based Section 8
3BR**	10	$2,115	60% MTSP	60% MTSP	Project-based Section 8
1BR	8	$1,245	60% MTSP	60% MTSP	Project-based Section 8
2BR	9	$1,485	60% MTSP	60% MTSP	Project-based Section 8
3BR	7	$2,145	60% MTSP	60% MTSP	Project-based Section 8
4BR	4	$2,275	60% MTSP	60% MTSP	Project-based Section 8

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits.
** Designated as Affordable Housing Trust Fund (AHTF) Program units

B. Feasibility Summary

All projects are underwritten within the agency's underwriting guidelines, unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- The development is a 100 percent Low Income Housing Tax Credit (LIHTC) project with 64 units restricted to the 50% MTSP rent and income limits under the City of Minneapolis funding and 28 units restricted to the 60% MTSP rent and income limits.
- All 92 units will benefit from project-based Section 8 rental assistance.
- The project maintains positive cash flow for 15 years, with a projected debt coverage ratio (DCR) of 1.14 in year 15.
- The project was underwritten at 5.0% vacancy with a 1.50 percent income and 3.0 percent expense inflators.
- Replacement reserves are budgeted at $450 per unit per year.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) 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:	Olson Redevelopment I
Sponsors:	Trellis Co.
Guarantors:	Trellis Co.
Location of Development:	Minneapolis
Number of Units:	92
Amount of LMIR Mortgage: (not to exceed)	$13,838 ,000
Amount of FFCC Loan: (not to exceed)	$1,325,000

WHEREAS, Agency staff 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 and rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide permanent mortgage loans to the sponsor or an affiliate thereof from the Housing Investment Fund (Pool 2 under the LMIR Program), and the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $13,838,000; and

2. The interest rate on the permanent LMIR loan shall be 4.25 percent per annum (subject to change, as set forth in the attached Agency term letter dated September 16, 2020), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 40-year amortization; and

3. The term of the permanent LMIR loan shall be 40 years; and

4. The amount of the FFCC loan shall not exceed $1,325,000; and

5. Repayment of the FFCC loan shall be deferred, except that annual payments shall be made from cash flow, if available, with interest up to 1.00 percent, and the loan term shall be co-terminus with the LMIR loan; and

6. The LMIR End Loan Commitment shall be entered into on or before March 31, 2021 and shall have a 24-month term (which shall also be the LMIR commitment expiration date); and

7. The FFCC loan shall close on or before March 31, 2021; and

8. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

9. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and

10. Sponsor shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

11. Sponsor shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

12. The sponsor, the general contractor, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 24th day of September 2020

____

CHAIRMAN

400 Wabasha Street North, Suite 400 St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | TTY: 651.297.2361
www.mnhousing.gov

September 16, 2020

Elizabeth Flannery
Trellis Co.
614 North First Street, Suite 110
Minneapolis, MN 55401

RE: Term Letter
Olson Redevelopment I, Minneapolis
MHFA Development #D0945, Project # M18315

Dear Ms. Flannery:

Minnesota Housing Finance Agency ("Minnesota Housing") selected this development for financing on August 29, 2019. Due to some modifications in funding structure, staff have approved the loan or loans below subject to the terms and conditions contained in this letter (the "Terms")._Minnesota Housing Finance Agency staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower:	A single asset entity: Olson Redevelopment I Limited Partnership
General Partner:	CHDC Olson Redevelopment I GP LLC Sole / Managing Member: Trellis Co., a Minnesota nonprofit corporation, or its successor
Development Description/Purpose:	Olson Redevelopment I is the new construction of a 92-unit apartment building located in Minneapolis, Minnesota

Program	**Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)**	**Flexible Financing Capital Cost (FFCC)**
Loan Amount	$13,838,000	$1,325,000
Interest Rate	*4.25%	0.00%
Mortgage Insurance Premium (%)	0.125% *(first year premium is paid in advance)*	Not Applicable
Term	40 Years	40 Years
Amortization/Repayment	40 Years	An annual payment that is equal to 20% of the amount by which Eligible Cash (as defined in the Note) exceeds $50,000.00. Deferred lump sum payment due in 40 years.
Prepayment Provision	No prepayment first 10 years from date of the Note	Prepay at any time without penalty
Nonrecourse or Recourse	Nonrecourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	End Loan	Construction/ Permanent Loan
Lien Priority	First	Second

*Subject to change. The interest rate is subject to achieving the following hurdles. Failure to meet either of the hurdles may result in the interest rate being reset at the then current rate, at Minnesota Housing's sole discretion:

- Board approval to enter into a loan commitment must be obtained by December 31, 2020; and
- The permanent loan must close by December 31, 2022.

Origination Fee: LMIR HUD Risk Share Loan: $188,380
(payable at the earlier of loan commitment or loan closing)

Inspection Fee: $50,250
(payable at the earlier of loan commitment or loan closing)

Guaranty/Guarantor(s): Completion, repayment and operations Guaranty to be provided by:
- Trellis Co.

Operating Deficit Reserve Account: Not Applicable

Operating Cost Reserve Account: Not Applicable.

Replacement Reserve Account:	A replacement reserve will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $3,450.50. The replacement reserve will be held by Minnesota Housing.
Escrows:	Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other subsidy agreement	Commitment to a minimum of 40 years of affordability from the date of loan for a project-based Section 8 contract consisting of 92 units.
Rent and Income Requirements:	<u>LMIR</u> - 92 units with rents and incomes not exceeding 60% MTSP <u>FFCC</u> - 92 units with rents and incomes not exceeding 60% MTSP
Other Occupancy:	Not applicable.
Other Requirements:	Not applicable.
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
Expiration Date:	This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Minnesota Housing board approval of a loan commitment.
Additional Terms:	None
Other Conditions:	None
Board Approval:	Commitment of all loans under the LMIR and FFCC Loan programs are subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loans.
Not a Binding Contract:	This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau at maggie.nadeau@state.mn.us on or before September 30, 2020.

If you have any questions related to this letter, please contact Paul Marzynski at 651.296.3797 or by e-mail at paul.marzynski@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

OLSON REDEVELOPMENT I LIMITED PARTNERSHIP

By: CHDC Olson Redevelopment I GP LLC
Its: General Partner

By: ______________________________________
Elizabeth Flannery, Its: President

Date Accepted: __________________________

Selection Criteria related to 2019 Available Financing

Project Name: Olson Towne Homes
Project City: Minneapolis
Property Number (D#): D0945
Project Number: M18315

Workforce Housing Communities

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ Top Job Center or Net Five Year Job Growth Community	☑ Top Job Center or Net Five Year Job Growth Community	

Loan/HTC Commitment and Compliance Monitoring
Eligibility was determined at the time of selection.

Location Efficiency – Access to Transit

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ One half mile of a planned or existing LRT, BRT, or commuter rail station	☑ One half mile of a planned or existing LRT, BRT, or commuter rail station	

Loan/HTC Commitment and Compliance Monitoring
Eligibility was determined at the time of selection.

Location Efficiency – Walkability

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ Walk Score between 50 and 69	☑ Walk Score between 50 and 69	

Loan/HTC Commitment and Compliance Monitoring
Eligibility was determined at the time of selection.

Planned Community Development

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ Contributes to Planned Community Development efforts	☑ Contributes to Planned Community Development efforts	

Loan/HTC Commitment and Compliance Monitoring
Eligibility was determined at the time of selection.

QCT/Community Revitalization and Tribal Equivalent Areas

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ QCT Community Revitalization Area or a Tribal Equivalent Area	☑ QCT Community Revitalization Area or a Tribal Equivalent Area	

Loan/HTC Commitment and Compliance Monitoring
Eligibility was determined at the time of selection.

Minority Owned/Women Owned Business

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ A MBE/WBE	☑ A MBE/WBE	

Loan/HTC Commitment and Compliance Monitoring
Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Preservation – Existing Rental Assistance

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ 100% of units	☑ 100% of units	Number of Units 92

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will require the Owner to continue renewals of existing project-based housing subsidy payment contracts(s) for as long as the assistance is available. Except for "good cause," the Owner must not evict existing subsidized residents and must continue to renew leases for those residents.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Financial Readiness to Proceed/Leveraged Funds

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ 50% to 59.9% of funding secured	☑ 60% to 69.9% of funding secured	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Intermediary Costs

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ 15.1 to 20%	☑ 15.1 to 20%	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Universal Design

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ Elevator Building	☑ Elevator Building	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and validated during the underwriting phase and architectural review.

Smoke Free Building

Developer Claimed Deferred Loans	Agency Confirmed Deferred Loans	Number of Units (Agency Validated)
☑ Smoke Free Buildings	☑ Smoke Free Buildings	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include that the owner must maintain a smoke free policy and include a non-smoking clause in the lease for every household for the term of the loan.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA

MINNESOTA HOUSING

Board Agenda Item: 6.D
Date: 9/24/2020

Item: Commitment, Low and Moderate Income Rental Loan (LMIR) Program.

- Sabathani Senior Housing, D8212, Minneapolis, MN

Staff Contact(s):
Ted Tulashie, 651.297.3119, ted.tulashie@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
At the November 21, 2019 board meeting, the proposed development was selected for further processing under the Low and Moderate Income Rental (LMIR) loan program under Resolution No. 19-073. At that same meeting, the project was selected for a commitment of deferred funding under the Housing Infrastructure Bond (HIB) program under Resolution No. 19-072. Agency staff completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to $3,251,000.

All commitments are subject to the terms and conditions of the Agency term letter.

Fiscal Impact:
LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the construction/permanent loan without incurring financing expenses. The Agency will also earn certain fee income related to the loans.

Meeting Agency Priorities:

☒ Improve the Housing System
☒ Preserve and Create Housing Opportunities
☐ Make Homeownership More Accessible
☒ Support People Needing Services
☒ Strengthen Communities

Attachments:

- Development Summary
- Resolution
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY

SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS

Project Information				
Development Name	Sabathani Senior Housing		**D# 8212**	**M# 18173**
Address	3701 3rd Avenue South			
City	Minneapolis	**County**	Hennepin	
Date of Selection	November 21, 2019	**Region**	Metro	

A. Project Description and Population Served

- The development involves the new construction of 48 units in a three-story elevator building with nine 0BR/efficiency units, 35 one-bedroom units, and four two-bedrooms units.
- The development will provide general occupancy units, permanent supportive housing for seniors, and high priority homeless (HPH) units.
- One hundred percent of the development is restricted to the senior individual aged 55 and over.
- The development will serve households with incomes at or below 30 and 60% MTSP; four units will serve HPH single adults.
- Four units will benefit from a project-based Housing Support income supplement. These four units will be deeply affordable to households at 30% MTSP income.

B. Mortgagor Information

Ownership Entity:	Sabathani Senior Housing LLC
Sponsor:	Sabathani Community Center
Managing Member:	Sabathani Community Center
Guarantor(s):	Sabathani Community Center

C. Development Team Capacity Review

The sponsor, Sabathani Community Center, has limited experience completing multifamily affordable housing that is of similar size and scope of the proposed development. It has added a consultant, The Landon Group, to its team to help facilitate the underwriting and closing of the project. The developer has capacity to complete the project on time with the support of their consultant.

The property management company, The Schuett Companies, Inc., was established in 1968 and began property management activities in 1983. They currently have 15 developments with a total of 1,051 units. The property management company has the capacity to manage this development.

The service provider, Simpson Housing Services, Inc., will be the service provider for the four HPH units for single adults age 55 and over within the development. The necessary components are in place for a successful supportive housing project.

The architect, Mobilize Design & Architecture, LLC, and the general contractor, Watson-Forsberg Co., have successfully completed housing developments and have sufficient capacity to complete the project.

Sabathani Community Center is a non-profit developer/sponsor of Sabathani Senior Housing and qualifies as a 51 percent women-owned business enterprise.

D. Current Funding Request

Loan Type	Program	Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction/ End Loan
Permanent Amortizing	LMIR	Housing Investment Fund (Pool 2)	$3,251,000	4.25%	0.125%	40 yrs	N/A	Construction/ Permanent

- $820,000 of the LMIR first mortgage is supported by tax increment financing (TIF) from the city of Minneapolis.
- The first mortgage will be available during construction on a draw basis with interest only during the construction period. After construction completion, the loan will convert to amortizing loan at the same rate with a 40 year amortization and the HUD Risk Sharing insurance will be put in place.

First Mortgage Loan to Cost: 26 percent **First Mortgage Loan to Value:** not to exceed 87 percent

E. Significant Changes Since Date of Selection

The total development cost (TDC) increased 5 percent or $550,148, mainly attributed to construction costs, due to the competitive sub-contractor construction environment. The scope of work has remained largely the same. The gap is being filled with an increased deferred loan from the city of Minneapolis, an increase to the Minnesota Housing LMIR loan and a decrease in soft costs.

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition or Refinance	$50,000	$1,042
Construction Costs	$9,969,736	$207,703
Environmental Abatement	$0	$0
Professional Fees	$768,217	$16,005
Developer Fee	$1,175,000	$24,479
Financing Costs	$364,487	$7,593
Total Mortgageable Costs	$12,327,440	$256,822
Reserves	$0	$0
Total Development Cost	**$12,327,440**	**$256,822**

B. Permanent Capital Sources

Description	Amount	Per Unit
LMIR First Mortgage	$3,251,000	$67,729
Agency Deferred Funding (HIB)	$5,416,183	$112,837
Other: City Minneapolis Trust Fund	$1,900,000	$39,583
Other: Hennepin County AHIF	$800,000	$16,667
Other: Met Council LCDA	$516,109	$10,752
Other: Sabathani Land Donation	$50,000	$1,042
Rebates	$194,148	$4,045
Deferred Developer Fee	$200,000	$4,167
Total Permanent Financing	**$12,327,440**	**$256,822**

C. Financing Structure

- The development will not utilize housing tax credits as a funding source.
- Minnesota Housing first mortgage of $3,251,000, at 4.25 percent interest will be interest only during construction. Upon completion of construction, the loan will convert to an amortizing loan with HUD Risk Sharing insurance.
- $5,415,183 HIB deferred loan, no interest, but up to 1 percent is allowed, if requested under the senior use.

D. Cost Reasonableness

- The budgeted total development cost (TDC) per unit of $256,822 is 18.63 percent above the predictive cost model estimate of $216,496 and is within the 25 percent tolerance.
- This project was not awarded cost containment points.

SECTION III: UNDERWRITING

A. Rent Grid

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (%, of MTSP or AMI)	Rental Assistance Source
0BR	9	$866	50% MTSP	50% MTSP	
1BR - HPH	4	$734	50% MTSP	30% MTSP	Housing Support
1BR	29	$926	50% MTSP	50% MTSP	
1BR	2	$926	50% MTSP	50% MTSP	
2BR	4	$1,106	50% MTSP	50% MTSP	
Total	**48**				

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits.

B. Feasibility Summary

All projects are underwritten within Minnesota Housing's underwriting guidelines unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- The restrictions under the Minnesota Housing programs will be as follows:
  - LMIR – 48 units with rents at 50% MTSP and incomes not exceeding 50% MTSP
- The project maintains positive cash flow for 15 years with a projected debt coverage ratio (DCR) in year 15 of 1.08.
- The project was underwritten at 5 percent vacancy with 2 percent income and 3 percent expense inflators.
- Reserves are underwritten at $300/unit/year from operations. Minnesota Housing will be holding the reserves. The level of reserves meets Minnesota Housing's standard requirement and is appropriate for this senior development.

Agenda Item: 6.D
Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX

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

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

Name of Development:	Sabathani Senior Housing
Sponsors:	Sabathani Community Center
Guarantors:	Sabathani Community Center
Location of Development:	Minneapolis
Number of Units:	48
Amount of LMIR Mortgage: (not to exceed)	$3,251,000

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide permanent mortgage loans to the sponsor or an affiliate thereof from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $3,251,000; and

2. The interest rate on the permanent LMIR loan shall be 4.25 percent per annum (subject to change, as set forth in the attached Agency term letter dated September 2, 2020), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 40-year amortization and the interest during the construction period shall be interest-only at 4.25 percent per annum; and

3. The term of the permanent LMIR loan shall be 40 years and the construction period shall not exceed twenty-four months; and

4. The LMIR Loan shall close on or before March 31, 2021; and

5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and

7. The sponsor shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

8. The sponsor shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

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

Adopted this 24th day of September 2020

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CHAIRMAN

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MINNESOTA HOUSING

400 Wabasha Street North, Suite 400 St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | TTY: 651.297.2361
www.mnhousing.gov

September 2, 2020

Mary Merrill
Interim Executive Director
Sabathani Community Center
310 38th St E
Minneapolis, MN 55409

RE: Term Letter
Sabathani Senior Housing, Minneapolis
MHFA Development #D8212, Project #M18173

Dear Ms. Merrill:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence, satisfactory loan documentation, and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower:	A single asset entity: Sabathani Senior Housing LLC
General Partner:	Sabathani Community Center
Development Description/Purpose:	New construction of a 48-unit affordable development located in Minneapolis, Minnesota

Sept 2, 2020
Page 2

Minnesota Housing Loan Type/Terms

Program:	Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)	Housing Infrastructure Bond (HIB) Loan
Loan Amount:	$3,251,000	$5,416,183
Interest Rate	* 4.25%	0%
Mortgage Insurance Premium (%):	0.125% *(1st year premium is paid in advance)*	Not Applicable
Term:	40 years	40 years
Amortization/Repayment:	40 years	deferred lump sum payment due in 40 years
Prepayment Provision:	No prepayment first 10 years from date of the Note.	Prepay at any time without penalty.
Nonrecourse or Recourse	Nonrecourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	Construction/Permanent	Construction/ Permanent
Lien Priority:	First	Second

*Subject to change. Interest rate to be set at Board Commitment and locked for 6 months after which it may be reset at Minnesota Housing's sole discretion.

Origination Fee: LMIR HUD Risk Share Loan: $65,020
HIB Loan: $57,095
(both are payable at the earlier of loan commitment or loan closing)

Inspection Fee: $23,794 (payable at the earlier of loan commitment or loan closing)

Guaranty/Guarantor: Completion, Repayment and Operations Guaranty to be provided by:
- Sabathani Community Center

Operating Deficit Reserve Account: $97,530 to be funded on the day of closing by cash or letter of credit (outside of the development budget) to be held by Minnesota Housing.

Operating Cost Reserve Account: Not Applicable

Replacement Reserve Account: A replacement reserve will be required in the amount of $300/unit/annum. The monthly replacement reserve will be $1,200. The replacement reserve will be held by Minnesota Housing.

Escrows:	Real estate tax escrow and property insurance escrow to be established at time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other Subsidy Agreement:	Commitment to 10 years of affordability from the date of loan closing under the Housing Support program for 4 units.
Rent and Income Requirements:	LMIR – 48 units with rents at 50% MTSP and incomes not exceeding 50% MTSP. HIB – 48 units with rents at 50% MTSP and incomes not exceeding 50% MTSP. Commitment to affordability in effect while the loan is outstanding.
Other Occupancy Requirements:	4 High Priority Homeless (HPH) Units are set aside and rented to single adults.
Other Requirements:	The HIB loan is subject to the terms in the attached Deferred Selection Criteria.
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
Expiration Date:	The Terms will expire six months from the date of this letter.
Additional Terms:	Not Applicable
Other Conditions:	Not Applicable
Board Approval:	Commitment of all loans under the LMIR program is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loan.
Not a Binding Contract:	This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Allison Ehlert at Allison.ehlert@state.mn.us on or before September 11, 2020.

If you have any questions related to this letter, please contact Ted Tulashie at 651.297.3119 or by e-mail at ted.tulashie@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

Sabathani Senior Housing LLC

By: Mary Merrill
Mary Merrill, President

Date Accepted: 9/9/2020

MINNESOTA HOUSING

Selection Criteria Related to 2019 RFP/2020 HTC Round 1

Project Name: Sabathani Senior Housing

Project City: Minneapolis

Property Number (D#): D8212

Project Number: M18173

Permanent Supportive Housing for High Priority Homeless

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
☑ 5% to 9.99%	☑ 5% to 9.99%	Single Adults	4

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The Owner agrees that if units set aside for High Priority Homeless are occupied by households without rental assistance, the gross rents, including an allowance for tenant-paid utilities cannot exceed the required rent restrictions and will be incorporated into the loan and HTC documents.

The Owner agrees units will be set aside and rented to High Priority Homeless who are a household prioritized for permanent supportive housing by Coordinated Entry System (HPH units) and targeted to the populations indicated.

Permanent Supportive Housing for High Priority Homeless and People with Disabilities selection criteria cannot be claimed for the same units.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Permanent Supportive Housing for High Priority Homeless – CoC Priority 1

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
☑ Continuum of Care Household Type Priority One	☑ Continuum of Care Household Type Priority One	Number of Units	4

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units that the Owner agrees the project will target to Continuum of Care Household Type Priority One.

Serves Lowest Income Tenants/Rent Reduction

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ 50% of the restricted unit rents at 50% HUD MTSP	☑ 50% of the restricted unit rents at 50% HUD MTSP	Number of Units 44

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion.
The project must not exceed the gross rent levels for the required 10 year period. The period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

After the 10 year period has expired rent may be increased to 60% rent limit over a three year period, with increases not to exceed the amount listed in the table below, provided that more restrictive selection priority, funding or bond requirements do not apply.

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

Rental Assistance and Serves Lowest-Income Tenants/Rent Reduction selection criteria cannot be claimed for the same units.
The owner will be required to certify on an annual basis that the rent and income restrictions comply.

Rental Assistance

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ 5% to 10% of the total units	☑ 5% to 10% of the total units	Number of Units 4

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion.

For purposes of this category, project-based rental assistance is defined as project-specific funding stream that supports the operations of the property, reduces the tenant burden, and provides the tenant portion of rent to be no greater than 30% of household income except as approved by Minnesota Housing. The project must comply with the requirements in the Self-Scoring Worksheet and Deferred Loan Priority Checklist.

Minnesota Housing, at its sole discretion, will consider rental assistance programs with alternative rent structures as proposed by the applicant, where households may pay more than 30% of their household income when the program goals align with the needs of low-income populations such as with the Moving to Work and site-based Housing Support programs**.**

Rental Assistance and Serves Lowest-Income Tenants/Rent Reduction selection criteria cannot be claimed for the same units. The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Rental Assistance – 10 Year

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Development agrees to provide the project based rental assistance for a minimum 10 years	☑ Development agrees to provide the project based rental assistance for a minimum 10 years	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan/HTC document(s) will include requirements to meet this criterion. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The owner will be required to continue renewals of project based housing subsidy payments for a minimum of 10 years. The owner must continue renewals of existing project based housing subsidy payment contract(s). The owner agrees that rents will remain affordable at 50% MTSP income limits for a 10 year period if rental assistance is not available for the full period.

The 10 year period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

Rental Assistance – Further Restricted Rental Assisted Units (FRRA)

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
☑ 5% to 15%, but no fewer than four units	☑ 5% to 15%, but no fewer than four units	Number of Units	4

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

Owner agrees to further restrict units to households whose incomes do not exceed 30% of MTSP income limit for a 10 year period. The 10 year period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

Workforce Housing Communities

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Top Job Center or Net Five Year Job Growth Community	☑ Top Job Center or Net Five Year Job Growth Community	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Location Efficiency – Access to Transit

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ One half mile of a planned or existing LRT, BRT, or commuter rail station	☑ One half mile of a planned or existing LRT, BRT, or commuter rail station	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Location Efficiency – Walkability

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Walk Score of 70 or more	☑ Walk Score of 70 or more	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Community Development Initiative

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Contributes to Planned Community Development efforts	☑ Contributes to Planned Community Development efforts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

QCT/Community Revitalization and Tribal Equivalent Areas

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ QCT Community Revitalization Area or a Tribal Equivalent Area	☑ QCT Community Revitalization Area or a Tribal Equivalent Area	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Minority Owned/Women Owned Business

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ A MBE/WBE	☑ A MBE/WBE	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Financial Readiness to Proceed/Leveraged Funds

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ 50% to 59.9% of funding secured	☐ 50% to 59.9% of funding secured	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Intermediary Costs

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ 15.1 to 20%	☑ 15.1 to 20%	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Cost Containment

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Cost Containment	☐ Cost Containment	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through underwriting at 8609.

Universal Design

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Elevator Building	☑ Elevator Building	Number of Units 48

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be validated during the underwriting phase and architectural review.

Smoke Free Building

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Smoke Free Buildings	☑ Smoke Free Buildings	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include that the owner must maintain a smoke free policy and include a non-smoking clause in the lease for every household for the term of the loan/LURA.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

MINNESOTA HOUSING

Board Agenda Item: 6.E
Date: 9/24/2020

Item: Modification, Housing Infrastructure Bond (HIB) Loan
- Exodus II, D8241, Minneapolis, MN

Staff Contact(s):
Paul Marzynski, 651.296.3797, paul.marzynski@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
At the November 21, 2019 board meeting, the proposed development was selected for a commitment of deferred funding under the Housing Infrastructure Bond (HIB) program under Resolution No. 19-074 in the amount of $23,635,000. Agency staff completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution modifying the loan under the Housing Infrastructure Bond (HIB) program, increasing the original amount by $1,209,000 for a total HIB loan of $24,844,000.

All commitments are subject to the terms and conditions of the Agency term letter.

Fiscal Impact:
The Agency will not earn interest revenue, as the loan will not carry an interest rate. As the debt service on the HIBs to be issued to finance the HIB loan is paid via state appropriations, there is also no interest expense to the Agency. The Agency will earn origination and construction oversight fees on the HIB loan.

Meeting Agency Priorities:
- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☐ Strengthen Communities

Attachments:
- Background
- Resolution

Background:

At its November 21, 2019 meeting, the Minnesota Housing board approved the selection of Exodus II for a loan commitment under the Housing Infrastructure Bond (HIB) program in the amount of $23,635,000 of which $21,667,000 was a permanent loan and $1,968,000 was a bridge loan that was to be repaid after construction completion.

The project involves the acquisition, substantial rehabilitation, and adaptive reuse of a former nursing home facility into 167 units of permanent supportive housing. Prior to selection, the sponsor's architects and engineers had very limited access to conduct inspections since the facility was a fully operating nursing home. Upon thorough inspection of the building systems and components, the architects and engineers discovered the condition of the building required more rehabilitation than expected. As a result, construction cost increased $2.5 million, or 12 percent. A portion of the additional costs were offset by other funding sources.

Staff recommends an increase to the HIB loan of $1,209,000 for a total HIB loan of $24,844,000, which is a 5.1% increase. Approximately $23,635,000 will be structured as a permanent loan and $1,209,000 will be a bridge loan that is repaid upon construction completion.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX
Modifying Resolution No. MHFA 19-074

RESOLUTION APPROVING MORTGAGE COMMITMENT MODIFICATION
HOUSING INFRASTRUCTURE LOAN (HIB) LOAN

WHEREAS, the Board has previously authorized a commitment for the Exodus II development herein named by its Resolution No. 19-074

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

WHEREAS, Agency staff have determined that there are increased development costs created by an increased scope of work.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to modify the commitment for the indicated development, subject to the revisions noted:

1. The HIB loan shall not exceed $24,844,000; and

2. All other terms and conditions of the MHFA Resolution No. 19-074 remain in effect.

Adopted this 24th day of September 2020

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CHAIRMAN

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MINNESOTA HOUSING

Board Agenda Item: 6.F
Date: 9/24/2020

Item: Housing Opportunities for Persons with AIDS (HOPWA) Grant Extension and Funding Modification, JustUs Health D3621

Staff Contact(s):
Erin Menne, 651.296.9953, erin.menne@state.mn.us
Joel Salzer, 651.296.9828, joel.salzer@state.mn.us

Request Type:

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

Summary of Request:
Staff requests approval of the attached Resolution authorizing a one year grant extension and HOPWA funding modification, in the amount of $244,945, to JustUs Health. This will be the second amendment to the original contract.

Fiscal Impact:
The Agency has received HOPWA formula funding for the state of Minnesota in the amount of $252,520. Minnesota Housing will retain 3 percent ($7,575) for the administration of this program.

Meeting Agency Priorities:
- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):
- Background
- Resolution

Background:
Minnesota Housing is the grantee for HOPWA state of Minnesota formula funds, appropriated annually by the U.S. Department of Housing and Urban Development (HUD). HUD HOPWA funds are distributed under a statutory formula that is based on AIDS surveillance information (number of people living with HIV/AIDS) from the Centers for Disease Control and Prevention as well as other factors including the share of the state's population in poverty and local housing costs.

State HOPWA formula funds serve Greater Minnesota outside of the 13 county eligible metropolitan statistical area (EMSA), including two Wisconsin counties. Low-income persons (at or below 80 percent of area median income [AMI]) who are living with HIV/AIDS, together with their families, are eligible to receive HOPWA assistance.

The HUD HOPWA FFY2020 funds are allocated for program use in FFY2021 (10/1/20-9/30/21). The FY2020 allocation to Minnesota Housing is $252,520, of which $244,945 will be available for program funding. The remaining $7,575 will be applied toward Agency administrative expenses.

The Minnesota HIV Housing Coalition – comprised of advocates, representatives of government agencies, and HIV housing and service providers – has established funding priority recommendations for the HOPWA Program that includes priority for the renewal and sustainability of existing programs. In alignment with this priority, the opportunity to apply for Minnesota HOPWA formula funds was restricted to the current grantee. The current grantee is JustUs Health, formerly known as Minnesota AIDS Project (MAP). Beginning in 2018, Minnesota Housing awarded the funds in the form of a single/sole source grant to JustUs Health since they are the only organization with the combination of experience serving persons experiencing HIV/AIDS, statewide relationships and capacity for geographic coverage.

JustUs Health has administered HOPWA funds throughout Greater Minnesota since 2001, serving households in 45 of 76 Greater Minnesota counties with FFY2019 funding. JustUs Health works collaboratively with a variety of community organizations and receives referrals from the Rural AIDS Action Network (RAAN), Mayo HIV case management program and their own Duluth Case Management program, as well as local county social service providers. Funds are available to eligible persons as emergency assistance for short-term rent, mortgage and utility payments (STRMU). Due to the limited funding available, emergency assistance is distributed through a lottery, which is based on referrals from the service providers. JustUs Health assisted 156 households with STRMU with FFY2019 funding, with 34 percent of the assisted households at income levels below 50 percent of AMI, and 44 percent of the assisted households at income levels below 30 percent of AMI. With the funds for FFY2020, JustUs Health proposes to serve approximately 160 individuals living with HIV/AIDS and their family members. JustUs Health anticipates that households will require an additional month of STRMU assistance based on an increase in current need for households served.

The Minnesota Department of Health's HIV/AIDS 2019 Prevalence and Mortality Report indicates that there are 1,587 persons living with HIV/AIDS outside of the seven-county metropolitan area. Almost all persons in this area with HIV/AIDS are currently housed. Thus the predominant need met by the Minnesota HOPWA funds ensures that this population remains in their housing by providing emergency assistance for mortgage, rent and utilities payments aligned with appropriate support services

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX

RESOLUTION APPROVING HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA) GRANT EXTENSION AND FUNDING AMENDMENT

WHEREAS, the Minnesota Housing Finance Agency (Agency) anticipates receipt of funds from the U.S. Department of Housing and Development (HUD) for the purpose of funding HOPWA activities for low-income persons who are living with HIV/AIDS.

WHEREAS, Agency staff has proposed to extend and provide additional funding for the current HOPWA grant to JustUs Health.

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to extend and amend with additional funding a grant agreement using federal resources as set forth below, subject to changes allowable under the HUD HOPWA Program, upon the following conditions:

2. The term of the existing grant agreement with JustUs Health may be extended for one year (October 1, 2020 – September 30, 2021) and the amount of the existing grant agreement may be increased by a total of $244,945.This approval is contingent upon receipt of HOPWA funds from HUD in a sufficient amount to fund the recommended amount and execution of a contract between the Agency and HUD; and

3. The issuance of a grant extension amendment in form and substance acceptable to Agency staff, and the execution of the amendment, shall occur no later than October 1, 2020; and

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

Adopted this 24th day of September 2020

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CHAIRMAN

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MINNESOTA HOUSING

Board Agenda Item: 7.A
Date: 9/24/2020

Item: Approval, Revisions to the Emergency and Accessibility Loan Program Procedural Manual

Staff Contact(s):
Tonya Taylor, 651.296.8844, Tonya.taylor@state.mn.us
Noemi Arocho, 651.296.7994, Noemi.arocho@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff requests approval of the revised Emergency and Accessibility Loan Program Procedural Manual.

Fiscal Impact:
None. The Emergency and Accessibility Loan Program is funded by Agency resources and state appropriations that do not earn interest for the Agency.

Meeting Agency Priorities: select all that apply
- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☒ Strengthen Communities

Attachment(s):
- Background
- Emergency and Accessibility Loan Program Procedural Manual

Background
The Emergency and Accessibility Loan Program (ELP) is a part of the Rehabilitation Loan Program (RLP). Minnesota Housing created RLP and ELP to complement loan programs available in the private sector to fill the financial gap that exists between low-income homeowners able to secure home improvement financing in the private sector and those homeowners unable to do so.

The Emergency and Accessibility Loan Program provides zero percent, deferred loans to owner-occupied households at or below 30 percent of the area medium income (AMI). Loans must be for improvements that directly affect an emergency condition or accessibility improvement.

Changes to the Emergency and Accessibility Loan Program Procedural Manual
Staff revised the Emergency and Accessibility Loan Program Procedural Manual to implement new policies and clarify existing procedures and language. Many of the recommended policies and clarifications were informed by lenders and a lender survey conducted in spring 2020. The recommended changes streamline procedures (e.g., remove prior approval for certain processes, etc.) and enable more homeowners access to the program (e.g., remove hazard insurance requirement, etc.). Other changes make the Emergency and Accessibility Loan Program Procedural Manual consistent with other Agency program procedural manuals (e.g., change “Seller” to “Lender,” etc.). The Board approved similar changes to the RLP manual last month and these revisions will bring the programs into alignment. Below is a summary of the substantive revisions to the Emergency and Accessibility Loan Program Procedural Manual.

- Chapter 1: Partner Responsibilities/Warranties
  - Clarifies unauthorized compensation and documentation of compensation;
  - Provides additional information regarding due diligence and audit requirements;
  - Revises lender representations and warranties; and
  - Clarifies lender and borrower roles in the selection of contractors.

- Chapter 2: Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting
  - Revises language on fraud and suspension;
  - Adds sections on misuse of funds, conflicts of interest, and disclosure and reporting; and
  - Removes section on fair housing, which is already included in the Representations and warranties section.

- Chapter 3: Borrower Eligibility Requirements
  - Clarifies ownership interest requirements; and
  - Revises language on income requirements, although income requirements remain the same.

- Chapter 4: Property Eligibility Requirements
  - Revises language to modify the term mobile home to Manufactured Home

- Chapter 5: Loan/Rehabilitation Eligibility
  - Clarifies procedural requirements for loan security;
  - Removes the hazard insurance requirement to enable low-income homeowners who lack hazard insurance to access the program;

    - Revises procedure for change orders to remove prior approval from Minnesota Housing staff for changes to the rehabilitation scope of work to streamline rehabilitation work;
    - Adds repayment of fees paid to lender if a lender is required to repurchase a loan.

- Chapter 6: Commitment/Disbursement
    - Clarifies loan commitment procedure, including approval of extensions to loan commitments;
    - Removes transfer of commitment procedure because, if necessary, lenders should cancel loans and borrowers should apply for new loans through other lenders rather than transferring loans between lenders; and
    - Removes duplicate funding requests because lenders may commit new loans for borrowers whose previous loan commitments were canceled.

- Chapter 7: Document and Reporting Requirements
    - Clarifies documentation of canceled loan commitments; and
    - Revises records retention language to provide additional details on requirements, including what documents need to be retained.

- Chapter 8: Servicing
    - Clarifies the procedure for servicing, delivery of loans to the servicer, and subordinations.

- Appendix A: Definitions
    - Updates definitions to reflect changes to the ELP Procedural Manual.

Effective Date

Following board approval, the proposed new Emergency and Accessibility Loan Program Procedural Manual will go into effect October 1, 2020.

MINNESOTA HOUSING

Emergency and Accessibility Loan Program Procedural Manual

~~February 12, 2018~~October 1, 2020

EQUAL HOUSING OPPORTUNITY

An equal opportunity employer.

This information will be made available in alternative format upon request.

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Introduction

Mission Statement

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

Background

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

The Emergency and Accessibility Loan Program (the “Program”) is a part of the Rehabilitation Loan Program (RLP). Minnesota Housing created RLP and the Program to complement loan programs available in the private sector to fill the financial gap that exists between low-income homeowners able to secure home improvement financing in the private sector and those homeowners unable to do so.

Procedural Manual

This Procedural Manual sets forth for Lenders the terms and conditions under which Minnesota Housing will purchase mortgage loans originated under the Program.

Emergency and Accessibility Loan Program

Deferred, zero percent interest rate Program loans are available to low-income Minnesota homeowners through participating Lenders. Loans must be for improvements that directly affect an Emergency Condition or Accessibility Improvement.

Chapter 1 – Partner Responsibilities/Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement~~ for Minnesota Housing Programs executed between the Seller and Minnesota Housing. It is incorporated into the Participation Agreement by reference and is a part thereof as fully as if described in the Participation Agreement at length~~.

Minnesota Housing reserves the right to:

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

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

~~1.02 Evidence of Misconduct Referred to Attorney General~~

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

~~1.03~~ 1.02 Compliance with Privacy Act Statutes

The Minnesota Government Data Practices Act:

- Requires the ~~Seller~~Lender to supply Borrowers with the Tennessen Warning and the Privacy Act Notice (Appendix B) when requesting private data[1]; and
- Governs when the disclosure of the Borrower's Social Security Number is required.

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Sections 270A.01 to 270A.12) allows the disclosure of the Borrower's Social Security Number or Minnesota Tax Identification Number to the Minnesota Department of Revenue. This could result in the application of funds held by the State, including but not limited to tax refunds, to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

1.03~~04~~ Unauthorized Compensation

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

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

In order to reduce the total ~~rehabilitation~~Rehabilitation cost associated with an eligible property, ~~a Seller~~the Lender may receive discounts~~[2]~~ from third parties involved in the project improvements. In these cases, the Lender must document in the Borrower file that the discounts received are considered typical for the market area and do not constitute a kickback, commission, rebate or compensation for products or services rendered. Any discounts that exceed what is typical must be documented as a charitable contribution by the representative of the seller, builder, remodeler, contractor or supplier providing the discount.

1.04~~05~~ Minnesota Housing Due Diligence Audit Guidelines and Requirements

The ~~Seller~~Lender is required to keep on file a complete copy of documents for each loan originated for purchase by Minnesota Housing. ~~A loan file may be requested to be made available to Minnesota Housing at the Seller's office during regular business hours or forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased.~~Minnesota Housing will perform a quality control audit of loan files purchased from the Lender and will notify the Lender if a loan is selected for audit. Upon

[1] Only the Borrower's name, address and amount of assistance received are public data and may be released to the public. All other data are private and may be released only to those authorized access by law.
~~[2] Discounts must be considered normal and do not constitute a kickback, commission, rebate or compensation to the Seller for services or products rendered.~~

request, the Lender must submit a complete loan package with all documentation that was used to originate and close the loan.

Audited loans are reviewed for:

- Minnesota Housing Program/policy compliance;
- Compliance with federal and state consumer lending regulations;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the Program in part or in whole.

1.05~~06~~ Termination of ~~Seller~~the Lender's Participation

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

- This Procedural Manual;
- The Participation Agreement;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state Laws or Acts that protect the Borrower's rights with regard to obtaining financing for home improvements; and
- Other applicable state and federal laws, rules and regulations.

Upon termination of a ~~Seller's~~Lender's Participation Agreement, Minnesota Housing will continue to purchase eligible loans for which a ~~commitment~~Commitment has already been issued, until the ~~commitment~~Commitment expiration date.

Minnesota Housing may, at its option, impose remedies other than termination of the Participation Agreement for ~~Seller nonperformance~~Lender noncompliance.

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

1.06~~07~~ Representations and Warranties

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

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- Truth in Lending Act;
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H;
- Real Estate Settlement Procedures Act of 1974; and
- Code of Federal Regulations (24 CFR part 35).

In addition to the above warranties and representations, ~~Seller~~the Lender also warrants and represents that ~~it~~:

- ~~Seller~~The Lender is the sole owner and holder of the Program loan with the right to assign it to Minnesota Housing;
- ~~Seller~~The Lender has assigned the loan free and clear of all encumbrances;
- ~~Seller~~The Lender has complied with and will continue to comply with all terms and conditions in the Participation Agreement and this Procedural Manual for each loan processed pursuant to the Program unless prior written approval is obtained from Minnesota Housing;

- ~~Seller~~The Lender is a legally constituted public or governmental agency, political subdivision, nonprofit entity~~ as defined by Minnesota Housing~~, a housing and redevelopment authority, or other organization ~~designated by Minnesota housing~~, which has as a primary purpose~~,~~ the provision or development of affordable housing to low-income persons or households in Minnesota;
- ~~Seller is contracted under the Rehabilitation Loan Program;~~
- ~~Seller~~The Lender maintains capital and trained personnel adequate to render the services required as a part of the ~~Seller's~~Lender's participation in the Program;
- ~~Seller maintains adequate insurance on its employees in the form of a Fidelity and Forgery Bond and can supply written proof of this coverage to Minnesota Housing;~~
- ~~Seller tracks all applicants to document to compliance with federal Fair Housing and documents reasons for loan denial for future Program evaluation;~~
- ~~On the date each loan was closed:~~
- ~~Seller~~The Lender follows all state and federal consumer lending laws, rules and regulations;
- The Lender has neither received nor solicited any fee or remuneration not approved by this Procedural Manual; and
- After reasonable inspection, the ~~Seller~~Lender has no knowledge that any improvement ~~included in~~funded by the loan is in violation of applicable zoning ordinances, building ordinances, laws or regulations.~~; and~~
  - ~~The Seller has closed the loan in accordance with the instructions provided in this Procedural Manual.~~
  - ~~Seller has neither received nor solicited any fee or remuneration not approved by this Procedural Manual;~~
  - ~~After reasonable inspection, the Seller has no knowledge that any improvement included in the loan is in violation of applicable zoning ordinances, building ordinances, laws or regulations; and~~

~~The Seller has closed the loan in accordance with the instructions provided in this Procedural Manual.~~

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

1.07~~08~~ ~~Seller~~ Lender Compensation

~~Minnesota Housing will provide funds to defray a portion of the expense incurred by providing Seller services, including but not limited to staff salaries, office expenses, travel expenses, counseling and technical assistance. Seller~~The Lender is compensated for each loan purchased by Minnesota Housing at a rate of 10% of the loan amount or $1,200 per loan, whichever is less, and lead paint risk assessment costs if a household resident has an Environmental Intervention Blood Level (EIBLL).

1.08~~09~~ Selection of Contractors

~~Seller must permit the Borrower to~~ The Lender may not choose the contractor~~(s).~~ Borrowers are responsible for the selection of any contractor who will be involved in completing Rehabilitation on the property.

~~1.10 Borrower Selection~~

~~Seller must establish a Borrower selection process.~~

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

2.01 Fraud

Fraud is any intentionally deceptive action made for personal gain or to damage another. Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in Section 2.05.

2.02 Misuse of Funds

A loan and Participation Agreement are legal contracts. The Borrower and the Lender must use the funds to engage in eligible uses or procure certain goods, or services when Minnesota Housing provides funds to the Borrower or the Lender to pay for those eligible uses, goods, or services. Regardless of the Minnesota Housing program or funding source, the Borrower or the Lender must use Minnesota Housing funds as agreed and the Borrower or the Lender must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

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

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

2.03 Conflict of Interest

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

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

Organizational conflicts of interest occur when:

- A contracting party is unable or potentially unable to render impartial assistance or advice to Minnesota Housing due to competing duties or loyalties;

- A contracting party's objectivity in carrying out their responsibilities might be otherwise impaired due to competing duties or loyalties; and/or
- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors.

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

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

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

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

2.04 Suspension

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

2.05 Disclosure and Reporting

Minnesota Housing promotes a "speak-up, see something, say something" culture whereby internal staff, external business partners (e.g., the Lenders, Borrowers) and the general public are encouraged to report instances of fraud, misuse of funds, conflicts of interest, or other concerns without fear of retaliation. You may report wrongdoing or other concerns by contacting:

- Minnesota Housing's Chief Risk Officer;
- Any member of Minnesota Housing's Servant Leadership Team; and/or
- EthicsPoint, the Minnesota Housing hotline reporting service.

Chapter 3 - Borrower Eligibility Requirements

~~2~~3.01 Borrower

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

~~2~~3.02 Borrower Age

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

~~2~~3.03 Co-Signers

Co-signers are not permitted on Program loans. ~~All Borrowers must occupy the property as their Principal Residence.~~

~~2~~3.04 Ownership Interest

~~The~~For residences taxed as real property, the Borrower(s) must individually, or in the aggregate, possess at least a one-third ownership interest in the residence to be improved. ~~Except that if a mobile/manufactured home is to be rehabilitated and it is~~For a Manufactured Home taxed as personal property, the Borrower(s) ownership interest requirement is 100%.

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

Borrowers under this Program must have clear title to the subject property as evidenced by a title search or title opinion and a copy of the deed.

Eligible forms of ownership interest include the following:

- A fee simple estate;
- ~~A leasehold estate;~~
- A community land trust;
- Vendee interest in a recorded contract-for-deed;
- A ~~mobile/manufactured home~~Manufactured Home taxed as real property; or
- A ~~mobile/manufactured home~~Manufactured Home taxed as personal property and located in a ~~mobile home~~Manufactured Home park~~; or~~.
- ~~A leasehold estate subject to a Community Land Trust.~~

Title may be held in the following ways:

- Individually;
- Joint Tenants;
- Tenants in Common;
- ~~Tenancy by the Entirety;~~
- ~~Vendee interest in a recorded contract-for-deed[3];~~ or
- A recorded life estate, excluding remaindermen[4].

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

- Shares in a Cooperative Corporation;
- ~~Ownership~~An ownership interest by any form of trust; and
- ~~Ownership~~An ownership interest subject to a reverse mortgage.

~~2~~3.05 ~~Principal Residence/~~Occupancy Requirements

Borrower must have owned the property and resided in the property as his/her Principal Residence for at least 6 months prior to applying for the ~~start of rehabilitation.~~Program loan. Further, the Borrower must ~~continue to own~~maintain ownership and title to the property and regularly reside in the property as ~~his/her~~their Principal Residence during the term of the loan.

~~2~~3.06 Emergency and Accessibility Loan Program Application

All Borrowers must apply for the Program through an approved ~~Sellers~~Lender using the Minnesota Housing Borrower Application. Program loans shall be made only when the Lender determines that financing is not otherwise available, in whole or in part, from private lenders upon equivalent terms and conditions.

~~2~~3.07 Prior Minnesota Housing Assistance

A Borrower who has previously received financing through the Program and/or the Rehabilitation Loan Program, may be eligible for additional Program funds assuming all loan requirements have been met and an Emergency Condition or Accessibility Improvement has been identified.

~~2~~3.08 ~~Minnesota Housing~~Emergency and Accessibility Loan Program Eligibility Income

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~~[3] Borrower must get prior approval from contract for deed vendor. Vendor will be required to sign the Mortgage as an Accommodation Party.~~

[4] Remainderman will be required to sign the Mortgage as an Accommodation Party.

Gross annual household income ~~is~~includes but is not limited to the gross annual projected household income ~~verified within 120 days of the application date~~ of all residents age 18 and over ~~of~~that reside in the ~~Borrower's~~ household, from whatever source derived ~~(with the exception of incidental income from after school employment of persons under 18 years of age)~~ and before taxes or withholdings – less deductible medical expenses allowed. Incidental income from after school employment of persons under 18 years of age does not need to be included. (See Income Eligibility Calculation Worksheet.) The ~~Minnesota Housing maximum~~ gross household income ~~cannot~~may not exceed the amounts listed on Minnesota Housing's Website.

Gross annual projected household income includes:

- Salary, commissions, bonuses, tips, earnings from full-time, part-time and seasonal employment, including sick pay;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation~~, public assistance, social security benefits, unemployment compensation and sick pay;~~/benefits;
- Public assistance;
- Social Security benefits;
- Unemployment insurance;
- Net rental income~~,~~;
- Net income received from business activities or investments;
- Alimony~~,~~ and child support;
- Estate or trust income;
- ~~Seasonal employment income;~~
- Ongoing educational grants; and
- Contract-for-deed income deducting principal, interest, taxes, and insurance paid ~~by property Administrator~~ on outstanding debt against the property. (Deductions cannot exceed the contract-for-deed income.)

If a Borrower's gross annual income is zero or a negative amount, the Borrower is ineligible for financing.

~~2~~3.09 Minnesota Housing Maximum Asset Limit

The total assets of all residents in the household may not exceed $25,000.00 after deducting any outstanding indebtedness pertaining to the assets.

Assets include, but are not limited to, the following:

- Cash on hand or in checking or savings accounts;
- Securities or United States Savings Bonds;
- Market value of all interests in real estate, exclusive of the structure to be improved and a parcel of real property of not more than two contiguous platted lots or 160 continuous acres on which such structure is located;
- Cash value of life insurance policies;
- Recreational vehicles such as golf carts, snowmobiles, boats, or motorcycles;
- All land in which any resident of the household holds title and is selling on a contract-for deed. Value in this case is defined as the outstanding principal balance expected to exist on the contract one year from the date of application;
- Life estate value on a property other than the subject property; and
- All other property, excluding household furnishings, clothing, and one automobile, and real estate, equipment, supplies, and inventory used in a business.

~~2~~3.10 Credit Requirements

- Borrowers must be unable to obtain financing under equivalent terms elsewhere.
- Credit reports are not required by Minnesota Housing.
- Borrower must be current on all property tax payments at the time of application
- Combined loan amounts of all loans secured by the subject property cannot exceed 110 percent of the property value at the time of loan closing.

  Borrowers must be current on all mortgage loan payments at the time of application.
- ~~Current status~~ Examples of documentation for ~~all mortgage payments must be re-verified within 2 business days of loan closing using one of the following methods:~~verifying payments include, but are not limited to:
  - A verification of current mortgage payment status from the loan servicer; and
  - A mortgage statement citing the loan servicer's name and address, the most recent payment made, the date and amount of the next payment due and any past due amounts, and/or any unpaid fees~~, or~~.
  - ~~Another documentation method pre-approved in writing prior to loan closing by Minnesota Housing.~~

~~2~~3.11 Separated Spouses

When the ~~Seller~~Lender establishes that a spouse permanently resides outside of the household, that separated spouse may be excluded from signing the Program loan application and note, but must sign the mortgage.

Examples of separated spouse documentation include:

- Legal separation documentation~~.~~;
- Proof of initiated divorce proceedings~~.~~; and
- Verification of separate Principal Residence and absence of joint accounts.

~~2~~3.12 Loans to the Lender's Employees and Affiliated Parties

~~Seller~~The Lender may make Minnesota Housing loans to their directors, officers, agents, consultants, employees and/or their families~~.~~, elected or appointed officials of the State of Minnesota as well as to ~~builders, realtors and/or their families, and any other principal with whom the Seller does business. Minnesota~~ Minnesota Housing employees and/or their families who are not in a position to participate in a decision making process or gain inside information with regard to the loan and do not result in a conflict of interest as outlined in Section 2.03 of this Program manual. ~~eligible subjectapproval by the Minnesota Housing Board of Directors.~~The Borrower must ~~satisfy~~meet all eligibility criteria for the Program.

Chapter ~~3~~4 - Property Eligibility Requirements

~~3~~4.01 Eligible Properties

Properties eligible for a loan must be located in the State of Minnesota and may include any of the following property types:

- A single family detached home;
- A duplex[5];
- An eligible unit in a Planned Unit Development (PUD);
- A unit of a condominium[6];
- A townhome[7]; or
- Certain ~~mobile/manufactured homes~~Manufactured Homes (as outlined in Section ~~2~~3.04).

~~3~~4.02 Ineligible Properties

Properties ineligible for a Program loan include but are not limited to:

- Properties containing three or more units;
- Properties intended for recreational use;
- Properties intended to be used as an investment property (except the rental of a second unit in a duplex); and
- Properties primarily used for business (more than 50% of the floor space is used for the business).

~~3~~4.03 Property Inspections

The ~~Seller~~Lender must conduct inspections of the property as follows:

- The first inspection determines the property's ~~emergency conditions~~Emergency Conditions or essential ~~accessibility needs~~Accessibility Improvements without regard to lead hazards (except if addressing lead paint due to an Environmental Intervention Blood Lead Level (EIBLL)) and is used to prepare the initial scope of work.
- Additional inspections should demonstrate that construction has been completed according to the Scope of Work and that the quality of the work is satisfactory. The ~~Seller~~Lender may conduct additional inspections as work is completed.

[5] The Borrower must occupy one unit of a duplex property.
[6] If the property is a condominium ~~or townhome~~, only the portion of the real estate owned by the Borrower is eligible. Common areas owned by the association are not eligible.
[7] If the property is a ~~condominium or~~ townhome, only the portion of the real estate owned by the Borrower is eligible. Common areas owned by the association are not eligible.

Minnesota Housing reserves the right to inspect properties during any stage of ~~the rehabilitation process~~Rehabilitation with reasonable notice.

~~3~~4.04 Local Ordinances and Plans

Property improvements must conform to all applicable zoning ordinances and all appropriate permits must be obtained.

Chapter ~~4~~5 – Loan/Rehabilitation Eligibility

~~4~~5.01 ~~Eligible Loans~~Loan Eligibility

Minnesota Housing purchases closed loans from ~~Sellers~~the Lender if the loan satisfies all the requirements of the Procedural Manual.

~~4~~5.02 Program Loan Amount

- Maximum loan amount is $15,000.
- Minimum loan amount is $1,000.
- Recording fees, mortgage registration tax and title search costs may be collected from the Borrower ~~and~~or may be included in the loan amount as long as Program loan amount ~~maximums are~~maximum is not exceeded. No other fee's may be charged to the Borrower.

~~4~~5.03 Interest Rate/Amortization Requirements

Generally, loans under the Procedural Manual are interest-free, deferred loans which are forgiven at the end of the loan term. However, if the Borrower sells, transfers title or ceases to occupy the property as his/her Principal Residence during the loan term, the loan will become due and payable.

~~4~~5.04 ~~Loan~~Mortgage Term

- The loan term for properties taxed as real property (including Manufactured Homes) is 15 years.
- The loan term for properties taxed as personal property and within a mobile home park is 10 years.

Prior to the expiration of the applicable periods stated above, all loans are due on sale, transfer of title, or if the property ceases to be the ~~borrower's~~Borrower's Principal Residence.

~~4~~5.05 Ineligible Improvements/Use of Funds

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

- Public improvement assessments – Loan proceeds may not be used in whole or in part to pay public improvement assessments.
- Improvements already in place – Loan proceeds may not be used to pay for any work done prior to the date of the loan closing.
- Existing debt – Loan proceeds may not be used to pay off existing debt.

~~Demolitions~~Demolition of structurally unsound outbuildings, and additions intended to accommodate a Disabled Household Resident require prior written approval by Minnesota Housing.

~~4~~5.06 Security for the Loan

- All loans for properties taxed as real estate ~~will~~must be secured with a mortgage which must be recorded ~~as soon as possible~~within 15 days after the date of closing. ~~Seller~~The Lender may not wait to record the mortgage until after the ~~rehabilitation~~Rehabilitation is completed to accommodate changes in the loan amount. ~~In the event there are changes~~
- All interests in the Note and Mortgage must be assigned to Minnesota Housing when the loan is purchased and funded by Minnesota Housing.~~amount, the Seller must follow the requirements outlined in Section 6.02 of this Procedural Manual.~~
- Loans ~~made in conjunction with~~ for a ~~manufactured home~~Manufactured Home, taxed as personal property and located within a ~~mobile~~Manufactured Home ~~home~~ park ~~will~~must be secured with a lien against the title to the ~~manufactured home~~Manufactured Home.

~~4~~5.07 Title Verification

~~In connection with title to the subject property, the Seller~~The Lender is required to verify the following:

- The legal description of the subject property;
- The Borrower's ownership interest by conducting a title investigation:
  - Through documented contact with the County Recorder's Office/Registrar of Titles; or
  - Via an Owners and Encumbrances report; and
- Any existing liens, if any, on the property.~~, and any existing liens. Title investigation may be conducted by the Seller through documented contact with the County Recorder's Office/Registrar of Titles, or with an Owner's and Encumbrances report.~~

~~4.08 Hazard Insurance Requirements~~

~~All properties must be covered by hazard insurance which meets at a minimum the following requirements:~~

- ~~Insurance must be in effect on the date of the mortgage;~~
- ~~Level of Coverage: Hazard insurance must be provided in an amount sufficient to cover all lien amounts or 100% of the insurable value and protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement and should be of the type that provides for claims to be settled on a replacement cost basis; and~~
- ~~Mortgage Clause: All insurance policies must contain a 'standard' or 'union' mortgage clause in the form customarily used. The mortgage clause should read "Minnesota Housing Finance Agency, in care of *(insert Servicer's name and address here)*." For specific mortgage clause language, please contact Minnesota Housing.~~

~~4.09~~ 5.08 Rehabilitation Requirements

Rehabilitation in connection with a Program loan must satisfy the following requirements:

- Prior to the start of ~~rehabilitation~~Rehabilitation, the property must be inspected and determined to be eligible under the Program.
- All proposed ~~rehabilitation~~Rehabilitation must be outlined in a written scope of work and must ~~correct~~address the ~~emergency~~Emergency Condition and~~ accessibility needs~~/or Accessibility Improvement noted in the inspection report.
- At least two bids must be solicited from Minnesota-licensed contractors based on the written scope of work. Generally, the lowest, reasonable bid must be selected. If the lowest, reasonable bid is not selected, the ~~Seller~~Lender and the Borrower must provide written justification for selecting the higher bid and such bid must be approved at the sole discretion of Minnesota Housing.
- All improvements must be completed by contractors licensed by the state of Minnesota.
- A written construction contract must be executed between the Borrower and the contractor.
- ~~Changes in the scope of work are not permitted unless unanticipated deficiencies that will cause further damage to the home if not addressed are identified during the rehabilitation process.~~
- ~~Any change in the scope of work must be documented using the written Change Order form provided by Minnesota Housing and must be approved in advance by Minnesota Housing.~~
- ~~Change Orders must be signed and dated by both the Borrower and the contractor.~~
- Each ~~rehabilitation~~Rehabilitation improvement must be a permanent general improvement finished in compliance with all applicable state, county and municipal health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Rehabilitation improvements to ~~manufactured housing~~Manufactured Homes must comply with Minnesota State Building Code, Section 1350.3800, which addresses the distinction between a construction alteration and a repair and the different licensing requirements attendant to each type of improvement.
- Lien waivers must be collected from all contractors upon completion of ~~rehabilitation~~Rehabilitation.

45.09 Change Orders

After the loan has closed:

- Changes in the scope of work are not permitted unless unanticipated deficiencies identified during the Rehabilitation process will cause further damage to the home if not addressed.
- Any change in the scope of work, including the reason for the change must be documented in the file.
- In the event that a change order occurs, post-closing modification requirements must be met.

5.10 Sworn Construction Statement and Lien Waivers

General Contractors are required to execute a Sworn Construction Statement.

~~Sellers~~ The Lender must obtain lien waivers for all work performed and all materials supplied by:

- The general contractor(s);
- Subcontractors; and
- Materials supplier(s).

Upon completion of ~~rehabilitation~~Rehabilitation, the ~~Seller~~Lender and the Borrower must execute the Completion Certificate provided by Minnesota Housing. Rehabilitation must be completed within 9 months of loan ~~commitment~~Commitment unless Minnesota Housing issues a written extension.

~~4~~5.11 Homeowner Labor

Homeowner labor is not permitted under the Program.

~~4~~5.12 Eligible Emergency Improvements

Eligible emergency improvements are repairs to a property damaged as a result of events beyond the Borrower's control or as necessitated by a systems or structural failure such as:

- Failure of the heating, electrical, ventilation, or plumbing/septic system;
- Roof leaks that have led to significant secondary damage to the home's interior, including but not limited to electrical damage that would cause a potential fire hazard;
- A structural failure of the foundation, walls, or roof of the home that could cause collapse;
- An Environmental Intervention Blood Lead Level (EIBLL) of a household resident; or
- An accessibility need that prevents a Disabled Household Resident from inhabiting the home.

Other ~~emergency conditions~~Emergency Conditions that could cause the home to be or become uninhabitable will be considered by Minnesota Housing on a case-by-case basis.

The Lead~~-based paint guidelines do~~ Based Paint Guide for Applicable Single Family Programs does not apply to Program loans unless the repairs were necessitated by a lead paint health hazard.

~~4~~5.13 Non-Complying Loans

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

- Adjust the purchase price of the noncompliant loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the ~~Seller~~Lender to repurchase the loan for the outstanding balance and any fees paid to the Lender;~~purchase price;~~
- Terminate, suspend, or otherwise limit the ~~Seller's~~Lender's Participation Agreement with Minnesota Housing; or
- Preclude the ~~Seller~~Lender from future participation in Minnesota Housing programs.

~~4~~5.14 Repurchase of Loans

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

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

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

Chapter ~~5~~6 – Commitment/Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program and/or initiative during any business day such as:

- A maximum dollar amount a ~~Seller~~Lender may commit; or
- A maximum number of ~~Individual~~ Commitments a ~~Seller~~Lender may commit.

~~Seller~~The Lender commits funds on a first-come, first-served basis. Fund balances are available on the Minnesota Housing website.

~~Individual~~ Commitments are to be considered as "forward commitments" by ~~Seller~~the Lender. It is expected that the loan will be closed within the Commitment period and delivered to Minnesota Housing for purchase.~~submitted to gain a Purchase Approval status via the Loan Commitment System.~~

~~5~~6.01 ~~Requesting~~ Loan Commitments

In order to obtain a Commitment to reserve funds under the Program, the Lender must reserve the loan using the Loan Commitment System.
~~Once Seller has determined that a Borrower meets the loan requirements, a commitment of funds is requested through the Loan Commitment System.~~

~~A request for a commitment that meets the eligibility requirements in this Procedural Manual will be authorized electronically.~~

Commitments are valid for 45 days. All ~~commitments~~Commitments will be automatically cancelled at day 46.

Loans must meet eligibility requirements and gain a status of Purchase Approval via the Loan Commitment System no later than the last day a ~~commitment~~Commitment is still valid.

~~5~~6.02 Modifying a Commitment

- ~~Any change~~Changes to a loan must be updated in the Loan Commitment System and will be evaluated for compliance with Program eligibility requirements. ~~commitment must meet eligibility requirements and be submitted via the Loan Commitment System to qualify.~~
- Any qualifying ~~commitment~~Commitment change will not alter the ~~commitment~~Commitment period ~~of the original commitment.~~originally established.
- ~~Changing~~Changes to Commitments involving the Borrower(s) and/or the property address ~~on a committed loan is~~ are not permitted.

- An increase to the loan amount will be permitted only if funds are available to accommodate the change.

~~5~~6.03 Canceling a Commitment

Minnesota Housing requires ~~Seller~~the Lender to cancel any ~~commitment~~Commitment that will not be used for the specified Program loan.

~~5.04 Transfer of Individual Commitments~~

~~Seller may not transfer commitments to another Seller without Minnesota Housing's prior written approval. Minnesota Housing staff may transfer a commitment under the following conditions:~~

~~Seller requests in writing a transfer of the commitment to a different Seller and documents the reason;~~

~~The new Seller must be an approved participant in the Program; and~~

~~Original Seller must transfer and/or assign case documents to the new Seller.~~

~~5.05 Duplicate Funding Requests~~

~~Under the Program, the Seller may not cancel a Program commitment and subsequently request funds for the same Borrower/property.~~

~~5.06 Minnesota Housing Loan Purchase/~~

6.04 Minnesota Housing Disbursement of Funds

Minnesota Housing will purchase loans ~~with a status of Purchase Approval~~ that, by the daily cutoff time, have been Purchased Approved in the Loan Commitment System. ~~Monday through Friday, except for State observed holidays.~~

~~Emergency and Accessibility loans will be disbursed in one (1) disbursement to the Seller. Upon gaining Purchase Approval via the Loan Commitment System, 100%~~One hundred percent of the loan amount ~~and administrative~~plus the Lender fee will be disbursed ~~within~~ two business days after the loan has been purchased by Minnesota Housing.~~.~~

A ~~Seller~~Lender Certificate ~~detailing~~with details of each purchase transaction ~~details~~ will be available ~~only~~to the Lender via the Loan Commitment System after the loan has been purchased by Minnesota Housing.~~.~~

~~5.07~~6.05 Loan Purchase Corrections

If it is determined that an adjustment to the purchase price of any purchased loan is necessary, Minnesota Housing will either invoice ~~Seller~~the Lender for any funds to be returned or disburse additional funds to ~~Seller~~the Lender.

Chapter ~~6~~7 – Documentation and Reporting Requirements

~~6~~7.01 Loan Processing and Closing

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

- All standard loan documents must be on Minnesota Housing forms as provided and may not be altered in any way.
- All loan documents must be complete, accurate and reviewed by the ~~Seller~~Lender at the various and appropriate stages of the loan.
- All mortgage assignments must run directly from the ~~Seller~~Lender to Minnesota Housing and use the Minnesota Uniform Conveyancing Blank.
- All mortgages and assignments must be recorded by the appropriate offices:
  - Abstract Property – County Recorder's Office
  - Torrens Property – Registrar of Titles
  - Manufactured ~~homes~~Homes taxed as personal property and located within a ~~mobile home~~Manufactured Home park require that Public Safety Form 2017 (PS2017), listing Minnesota Housing as the lien holder, be recorded with the Department of Public Safety.

~~6.02 Post Rehabilitation Closing~~

- ~~If~~ The form should indicate Minnesota Housing Finance Agency as the ~~loan amount that was originally committed under this Program changes once improvements are complete, the Seller~~secured party and list Minnesota Housing's address: 400 Wabasha Street North, Suite 400, St. Paul, MN 55102.

7.02 Loan Modifications and Loan Corrections

The Lender must ~~modify the Note and amend the original recorded mortgage to reflect the correct, final loan amount as follows:~~

~~Properties Taxed as Real Property~~

- ~~Note and Mortgage – The~~ contact Minnesota Housing for documentation and process instructions, including utilizing the Modification of Note and Mortgage ~~must be drawn in Minnesota Housing's name, be executed by the Borrower(s) and Minnesota Housing, reflect the corrected loan amount~~Agreement, and ~~be recorded.~~

~~Manufactured Homes Taxed as Personal Property~~

~~Note and Mobile Home Security Agreement – The~~ /or Modification of Note and ~~Mobile~~Manufactured Home Security Agreement ~~must be drawn~~, in ~~Minnesota Housing's name, be executed by~~ the ~~Borrower(s) and Minnesota Housing and reflect the corrected~~event of loan amount corrections and/or modifications that occur after loan closing.

~~6~~7.03 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the Loan Transmittal form detailing specific documentation/delivery requirements. ~~Seller~~The Lender must fully execute and deliver documents within designated timeframes~~.~~ as outlined on the Loan Transmittal form. In addition, ~~Seller~~the Lender must specifically warrant that all applicable documentation has been obtained and reviewed to determine compliance with all Minnesota Housing requirements.

Documentation not delivered to Minnesota Housing/servicer within the specified time frames, may result, at Minnesota Housing's discretion, in the ~~Seller~~Lender being required to repurchase the loan, or any such remedy as identified in this Procedural Manual or the Participation Agreement. Minnesota Housing may also, at its discretion, extend the timeframes.

~~6~~7.04 Records Retention

~~Seller~~The Lender must retain ~~any and~~ all loan documents ~~(including~~in compliance with ~~Minnesota Housing's Program guidelines)~~federal and state laws, rules, and regulations. The Lender is required to make loan records available for inspection by Minnesota Housing for a period of ~~at least~~ six (6) years ~~from rehabilitation completion, including~~after the loan is sold to Minnesota Housing. Those records that may be requested by Minnesota Housing include, but are not limited to ~~the following:~~:

- ~~Records for all rehabilitation improvements including~~Credit related documents (e.g. paystubs, tax returns, income statements, documentation of assets, etc.);
- Compliance related documents (e.g. Borrower application, Loan Estimate (or its alternative form), Closing Disclosure (or its alternative form), Affiliated Business Arrangement documents, evidence of compliance with the Bank Secrecy/Anti-Money Laundering Act, etc.);
- Property related documents (e.g. scope of work, bids, lien waivers, change orders, fees, building permits and completion certificates, evidence of compliance with Rehabilitation and lead-based paint standards, etc.); and~~;~~
- ~~Copy of Borrower Application;~~
- ~~Written verification of all major sources of income;~~
- ~~Written verification of current property ownership; and~~
- ~~Documentation of the emergency or accessibility need(s) to be addressed.~~
- Collateral documents (e.g. title work or O&E reports, evidence of property ownership, a copy of the fully executed Note, a copy of the fully executed and recorded Mortgage, a

copy of the fully executed recorded Assignment of Mortgage to Minnesota Housing, etc.).

Chapter ~~7~~8 – Servicing

~~7~~8.01 Servicing

Upon purchase of the loan by Minnesota Housing, the Lender must deliver documents outlined in the Loan Transmittal form to the Minnesota Housing servicer. Until the loan is purchased, the Lender assumes all loan servicing responsibilities.
~~Each Seller will be assigned a designated servicer by Minnesota Housing.~~
~~Minnesota Housing may, at its discretion, designate other servicers.~~

~~7~~8.02 Delivery of Loans to Servicer

~~Seller~~The Lender must forward the loan~~, along with the required documentation~~ package according to the requirements outlined in the ~~prescribed order and format,~~Loan Transmittal form to the ~~assigned Servicer~~servicer by mail within five ~~(5)~~ calendar days of Minnesota Housing's purchase of the loan. Upon receipt of the recorded mortgage, the Lender must ensure the original document is delivered to the servicer within ten business days.

~~7.03 Due on Sale~~

~~The loan is due upon sale of or transfer of title to the property or if the property is no longer the Borrower's Principal Residence.~~

~~7.04~~8.03 Subordinations

Minnesota Housing allows subordinations only under limited circumstances and only with prior written approval. During the term of the loan, the Borrower's ability to use any equity in the property may be severely restricted. Please refer any Borrower inquiries for subordinations after the loan has been purchased by Minnesota Housing to the servicer or Minnesota Housing.

Appendix A: Definitions

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

TERM	DEFINITION
Accommodation Party	An owner of the property who is not a Borrower on the ~~Note~~note, such as a non-purchasing spouse.
Accessibility Improvement	An interior or exterior improvement or modification to a property, which is necessary to enable a ~~resident~~Disabled Household Resident or a Borrower with a permanent physical or mental condition that substantially limits one or more major life activities to function in that property.
Borrower	The recipient of Program loan funds.
Commitment	A Commitment of funds from Minnesota Housing with specific terms and conditions applied to a specific Borrower and a specific property.
Disabled Household Resident	A Borrower, or household member, who has a permanent physical or mental condition, which substantially reduces the person's ability to function in a residential setting. If the disability does not require the use of a mobility device, the Borrower must provide a completed Authorization to Disclose Health Information form, or a Supplemental Security Income (SSI) award letter or Social Security Disability Insurance (SSDI) award letter.
Emergency Condition	Property damage beyond the homeowner's control or that is necessitated by a system or structural failure that has caused or could cause the home to be uninhabitable.
Environmental Intervention Blood Lead Level (EIBLL)	The level of lead in blood that requires intervention in a child under age six. This is defined as a blood lead level of 20 µg/dL (micrograms per deciliter) of whole blood or above for a single test, or blood lead levels of 15-19 µg/dL in two tests taken at least three months apart.
Lender	A lender under contract to participate in the Program.
~~Individual Commitment~~	~~A specific legal commitment of funds with specific~~

	~~terms and conditions for use by a specific Borrower purchasing a specific property.~~
Manufactured Home	A dwelling structure not permanently affixed to real property and used as a Principal Residence.
Minnesota Housing	The Minnesota Housing Finance Agency.
~~Minnesota Housing Program Eligibility Income~~	~~Income used to meet the requirements of this Procedural Manual.~~
Participation Agreement	The contract executed between a Lender and Minnesota Housing that defines the terms in which the Lender agrees to participate in the Program.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Program	The Emergency and Accessibility Loan Program.
Rehabilitation	Necessary repairs to be completed on the Borrower's property.
~~Seller~~	~~A Lender under contract to participate in Minnesota Housing programs.~~

Appendix B: Forms List

All forms listed in Appendix B should be fully executed, as applicable, and maintained in the loan file by the Lender. Forms may be found on the Forms Guide and Glossary. See the Loan File Requirements Checklist for additional documentation requirements.

- ☐ Accessibility Evaluation
- ☐ Authorization to Disclose Health Information
- ☐ Borrower Application
- ☐ Change Order
- ☐ Completion Certificate
- ☐ Homeowner Agreement
- ☐ Income Eligibility Calculation Worksheet
- ☐ Lead Paint Checklist
- ☐ Modification of Note and Mortgage
- ☐ Modification of Note and Mobile Home Security Agreement
- ☐ Loan Transmittal
- ☐ Mortgage
- ☐ Note
- ☐ Note and Mobile Home Security Agreement
- ☐ Signature/Record Retention Requirements

☐ Tennessen Warning

MINNESOTA HOUSING

Board Agenda Item: 7.B
Date: 9/24/2020

Item: Approval, Revisions to the Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs Procedural Guide

Staff Contact(s):
Susan Thompson, 651.296.9838, susan.thompson@state.mn.us

Request Type:

☒ Approval
☒ Motion
☐ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

Summary of Request:
Staff requests approval of the revised Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs Procedural Guide (the "Program Guide").

Fiscal Impact:
Not Applicable

Meeting Agency Priorities:
☐ Improve the Housing System
☒ Preserve and Create Housing Opportunities
☐ Make Homeownership More Accessible
☒ Support People Needing Services
☒ Strengthen Communities

Attachment(s):
- Background
- Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs Procedural Guide

Background

The FFCC loan program generally works in tandem with LMIR loans, which provide long-term amortizing mortgage debt for multifamily rental housing affordable to low- and moderate-income Minnesotans. FFCC loans are traditionally structured as deferred loans at low or no interest and, as such, are used as a mechanism to reduce the overall interest rate to the development and to fill funding gaps.

Proposed Revisions

Staff proposes to revise the Program Guide to allow FFCC loans to also be paired with Housing Infrastructure Bond (HIB) loans to cover development costs that are not otherwise paid with HIB loans or other available sources resulting in a funding gap for the project.

Other administrative, non-material changes have also been included which do not reflect significant changes to the program.

Effective Date

Following board approval, the proposed Program Guide revisions will go into effect immediately.

Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs Procedural Guide

~~April 2020~~

September 2021

EQUAL HOUSING OPPORTUNITY

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, creed, national origin, sex, religion, marital status, status with regard to public assistance, disability, familial status, gender identity, or sexual orientation in the provision of services.

An equal opportunity employer.

This information will be made available in alternative format upon request.

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Introduction – Program Purpose and Background

The purpose of the Low and Moderate Income Rental (LMIR) Program is to provide 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.

When LMIR loans are used in a tax-exempt bond transaction, short-term bonds may be issued to fund a LMIR bridge loan to meet the 50 percent test in order for the development to qualify for 4% housing tax credits (HTC).

The Minnesota Housing Finance Agency (Minnesota Housing) also offers a U.S. Department of Housing and Urban Development (HUD) Risk-share Streamlined Refinance product for existing LMIR loans that are insured at 50 percent in the Level I HUD Risk-share Program. This allows owners to take advantage of current lower interest rates, and, potentially, address needed repairs. The maximum loan amount will be the lesser of the original principal balance or the unpaid principal balance plus eligible repair and closing costs. Refer to the HUD Risk-share Streamlined Refinance Term Sheet for more information.

~~**NOTE:** Where no distinction is made, this guide is referring to permanent amortizing LMIR loans, not LMIR bridge nor HUD risk-share streamlined refinance loans.~~

The Flexible Financing for Capital Costs (FFCC) ~~Program~~loan works in tandem with LMIR loans~~.~~ and Housing Infrastructure Bond (HIB) loans. FFCC loans are ~~traditionally~~typically structured as deferred loans at low or no interest and ~~are~~ used ~~as~~:

- As a mechanism to reduce the overall interest rate to the development~~.~~ when structured in conjunction with a LMIR loan; or,
- To fund costs not otherwise funded under the HIB proceeds when structured in conjunction with an HIB loan.

In either situation, the development will be subject to the rent, income, and occupancy restrictions imposed under the accompanying LMIR or HIB loan. Refer to the HIB Guide for further information relating to this requirement.

Both the LMIR and the FFCC loan programs work in conjunction with HOME funds, federal housing tax credits (HTC) or other public or private funding sources.

LMIR and FFCC loans are available through the annual Multifamily Consolidated Request for Proposals (RFP) process as well as on an open pipeline basis (subject to the availability of sufficient funding). Refer to the Multifamily Application Instructions: Consolidated RFP and HTC Rounds 1 and 2 for application instructions.

NOTE: Where no distinction is made, this guide is referring to permanent amortizing LMIR loans, not LMIR bridge, HUD risk-share streamlined refinance loans, or FFCC loans.

Chapter 1 – Funding Sources and Priorities

1.01 LMIR Funding Sources

LMIR loans are funded through the following two sources:

Housing Investment Fund: Minnesota Housing generates financial resources from its lending activities and makes them available to fund investment quality LMIR amortizing first mortgage loans. This is a non-federal resource that works well with 9% competitive HTC.

Federal Tax-exempt Bond Proceeds: Minnesota Housing may issue tax-exempt bonds to fund new LMIR loans along with applications for 4% HTC. If needed for eligibility for tax credits, short-term LMIR bridge loans may also be available.

Developers or owners who are considering 4% HTC for their properties should carry out a preliminary evaluation of their proposal to determine if it will meet minimum eligibility and threshold requirements as called for in the Minnesota Housing's Qualified Allocation Plan (QAP) in effect for the year the bonds will be issued. Applicants should also review Minnesota Bond Statutes to become familiar with state requirements along with Minnesota Housing's Tax-exempt Bonds Informational Guide.

If the tax-exempt bond proposal can satisfy the minimum threshold requirements for tax credits, developers should review the Housing Tax Credit Program Procedural Manual and the Housing Tax Credit Self-scoring Worksheet in effect for the year the bonds will be issued. These documents provide much greater detail to allow for the full evaluation of a proposal's potential to access, secure and utilize HTC. In seeking ~~tax credits~~HTCs, a developer or owner must submit a full and complete application package for HTC prior to issuance of the bonds, in addition to any related application packages for Minnesota Housing's other loan products. Refer to Minnesota Housing's Housing Tax Credits webpage for the QAP and other HTC materials.

1.02 FFCC Funding Source

Housing Affordability Fund: The FFCC Program offers deferred loans and is financed through the Housing Affordability Fund, which are funds generated through Minnesota Housing resources. ~~FFCC deferred loans are generally available only in partnership with LMIR loans and are used as a mechanism to reduce the overall interest rate to the development.~~

1.03 HUD Risk-share Mortgage Insurance

In order to minimize Minnesota Housing's risks, permanent LMIR loans will usually 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.

- HUD's insured portion will be either 50 percent (Level I) or, in rare situations, up to 90 percent (Level II).
- A Mortgage Insurance Premium (MIP) of 0.125 percent (Level I) or up to 0.25 percent (Level II) will be charged in addition to Minnesota Housing's interest rate on the loan.

   - The first year of MIP is paid in advance and will be included in the development cost budget.

- **Federal Requirements:**
   - Part 58 Environmental Review
      - All LMIR loans will undergo Part 58 environmental review to determine the impact of the development on the surrounding area.
      - **Once an application has been made for a LMIR loan, DO NOT make any choice limiting actions until Part 58 environmental clearance from the federal reviewer has been received.** Choice limiting actions include:
         - Site acquisition
         - Contract execution
         - Demolition
         - Construction
      - Taking any choice limiting actions will preclude the development from obtaining HUD Risk Share Insurance and may limit the ability of the Agency to provide a LMIR first mortgage.
   - Davis-Bacon Act
      - In general, loans are insured upon construction completion, therefore Davis-Bacon federal wage requirements do not apply.
      - See Section 3.09 for requirements related to State Prevailing Wages.
- **Form 2530 Submission**
   - HUD requires Form 2530 clearance from all development participants including the owner, developer, general partner (GP), limited partner (LP), general contractor (GC) and management agent prior to issuing their firm approval.

Chapter 2 – LMIR Eligible Uses and Eligibility Criteria

2.01 Eligible Housing Types

- Permanent, general occupancy, rental housing
- Permanent, supportive housing

2.02 Eligible Developments

- Must contain a minimum of four units*.
- Generally, a development needs to contain a minimum of 24 housing units to be financially feasible; however, smaller developments may be considered.
- Scattered site developments must be located in the same city or county and also contain a minimum of four units*.
- Developments with age restrictions of 55 and older are eligible for LMIR and FFCC loans.

2.03 Ineligible Developments

Nursing homes, board and care facilities and supervised living facilities licensed by the state of Minnesota or a delegated local department of health are not eligible for funding, nor are properties where residents require a 24-hour plan for supervision and/or medical/health care.

2.04 Eligible Activities

- New construction
- Rehabilitation of existing affordable housing
- Adaptive reuse (i.e., conversion to housing from another use)
- Preservation of affordable housing
- Preservation of federally assisted housing
- Construction to permanent financing
- Refinance of existing mortgages**

* A minimum of five units is required under the HUD Risk-share program.

** For any refinance loan, existing guarantors are expected to remain in place. For the purpose only of refinance loans, rehabilitation is not considered substantial (as defined in Minnesota Housing's Rental Housing Design/Construction Standards) if otherwise:

- The loan meets Minnesota Housing's Multifamily Underwriting Standards;
- Adequate upfront and ongoing reserves are budgeted to fund the capital needs identified in a Property Needs Assessment (PNA)/Capital Needs Assessment (CNA) and approved by a Minnesota Housing architect, and;
- The cost of repairs does not exceed $40,500 per unit.

2.05 LMIR Eligible Owners and Sponsors

- Ownership must be in the form of a single asset entity.
- Limited dividend and nonprofit or cooperative housing corporation.

2.06 LMIR Income Limits

Income limits are in effect for the life of the mortgage, unless otherwise noted (also refer to Section 2.08 for additional requirements when LMIR loans are funded with tax-exempt bonds).

- At a minimum, 40 percent of the units must be occupied by individuals/families whose income at initial occupancy does not exceed 60% of Multifamily Tax Subsidy Projects (MTSP) (adjusted for family size); or 20 percent of the units must be occupied by individuals/families whose income does not exceed 50% of MTSP. Refer to the Multifamily Rent and Income Tables for MTSP.
- No more than 25 percent of the units may have unrestricted incomes.
- The balance of units must be occupied by tenants whose incomes at initial occupancy do not exceed 100 percent of the greater of area or statewide median income for a four-person household, as determined by HUD.

~~Verification~~Income Certification and data collection requirements:

- At initial occupancy, households must self-certify their gross annual household income in Part I of the ~~Initial Occupancy Statement by Tenant form. Verification of income is not required.~~Initial Occupancy Statement by Tenant form. This form must be signed and dated by the head of household and the owner or management agent. A more detailed certification used for another program is also acceptable (e.g., HUD Form 50059 or 50058, Housing Tax Credit Tenant Income Certification, USDA Rural Development Certification, etc.). The LMIR program does not require annual recertification or verification of income.
- ~~For occupied properties, the borrower is required to submit an Owner Certification of Tenant Income Certification to Minnesota Housing. Within 120 days of closing, the owner will need to certify each tenant.~~

2.07 LMIR Rent Levels

Rent restrictions remain in place for the life of the mortgage, unless otherwise noted. The rent levels will be marketable, taking into consideration the household incomes that must be served, but at a minimum, the rent levels must comply with the following:

- 40 percent of units affordable to persons and families at 60% of MTSP; or 20 percent of units affordable to persons and families at 50% of MTSP
- The balance of units with rents at market rates as determined by Minnesota Housing

Refer to the Multifamily Rent and Income Tables for Multifamily Tax Subsidy Projects (MTSP).

2.08 Tax-exempt Bond Requirements

In addition to the other LMIR requirements, LMIR loans funded with tax-exempt bonds must adhere to the following requirements:

- The maximum rent for at least 20 percent of the units must not exceed the area fair market rents (FMR).
  - Scattered site developments (non-contiguous pieces of real property separated by more than just a street) must meet this requirement for each building.
  - Developments with project-based rental assistance are deemed to meet this requirement; and
- The owner must agree to extend any affordability restrictions and any contract or agreement for rental assistance for the maximum term permitted, including any renewals; and
- The units required to be set aside for low- and moderate-income tenants must be continuously offered for a "qualified project period," which is generally the longer of: (i) 15 years from 50 percent occupancy; (ii) the day the bonds are no longer outstanding; or (iii) the date when any Section 8 assistance terminates; and
- Rehabilitation cost must equal or exceed 15 percent of the portion of the cost of acquisition financed by the bonds.
  - Scattered site developments (non-contiguous pieces of real property separated by more than just a street) -must meet this requirement for each building; and
- 95 percent of tax-exempt bond proceeds must be used for qualified costs, which, with certain limitations, means amounts allocable to the capital costs of residential rental property.
  - Ineligible costs of up to 5 percent (including costs of issuance) may be financed with proceeds of the bond issue.

Refer to Minnesota Housing's Tax-exempt Bonds Informational Guide for more information on tax-exempt bond requirements.

2.09 Common Selection and Common Funding Priorities

In addition to the rent and income limits described above, for selection and funding priorities common to all Minnesota Housing programs, refer to the Multifamily Application Instructions: Consolidated RFP and HTC Rounds 1 and 2.

Chapter 3 – General LMIR Amortizing Loan Characteristics

Minnesota Housing's underwriting includes a thorough analysis of all aspects of the feasibility of the development proposal. In addition to requirements detailed in this guide, all LMIR loans are underwritten in conformance with Minnesota Housing's Multifamily Underwriting Standards.

3.01 Loan Term

- LMIR loans are fully amortizing, fixed rate loans that may have a 30 year, 35 year, or 40 year term. At Minnesota Housing's sole discretion, a 30 or 35 year term may be considered for developments involving rehabilitation or refinance, and a 40 year term may be considered for new construction.
- LMIR loans may be structured with a 17 year term and 30-40 year amortization, subject to mitigating factors, at the sole discretion of Minnesota Housing.
- FFCC loans are ~~generally made~~ typically structured as deferred loans with ~~an~~a low or no interest rate~~ of zero percent.~~. They are co-terminus with the accompanying LMIR or HIB loan and will be due and payable upon prepayment or maturity of the LMIR ~~loan.~~ or prepayment, maturity or forgiveness of the HIB loan. FFCC loans will be in ~~second~~a lien position immediately behind the LMIR or HIB loan. Minnesota Housing may, at its sole discretion, require ~~20 percent of eligible~~a cash ~~(~~flow provision as defined in the Multifamily Underwriting Standards~~) in excess of $50,000 to be repaid annually~~. FFCC loans are not structured as forgivable loans.

3.02 Debt Coverage Ratio

- LMIR loans are sized to meet Minnesota Housing's minimum debt coverage ratios (DCR), which range from 1.11:1 to 1.20:1 depending on the property characteristics and risk factors (refer to the Multifamily Underwriting Standards for current DCR guidelines).
- The development must maintain a break-even cash flow for a minimum of 15 years on a proforma basis.

3.03 Maximum Loan-to-Cost/Loan-to-Value

Level I HUD Risk-share (HUD shares 50 percent of the risk of loss):

- The loan-to-value limit for the amortizing first mortgage shall be in accordance with the requirements established in the Multifamily Underwriting Standards.

Level II HUD Risk-share (HUD shares more than 50 percent of the risk of loss):

- In accordance with HUD Handbook 4590.01, paragraph 2-4. C.2. and Mortgagee Letter 2010-21:
  - The loan-to-cost must not exceed 87 percent for affordable new construction/substantial rehabilitation transactions.
  - The loan-to-value must not exceed 85 percent for existing affordable properties.

3.04 Operating Deficit Escrows

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 closing of the LMIR loan, borrowers are required to establish an ODE, if required, funded with cash or an irrevocable and unconditional letter of credit. The ODE is not included in the total development costs. As a result, cash to fund the ODE must not be derived from the proceeds of any development sources. Despite this, the ODE may be funded from equity proceeds that would otherwise fund syndicator required reserves, which will be partially funded while the ODE remains in place.

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 escrow will be maintained until the later of the following two scenarios:

- One year after permanent loan closing; or
- Achievement of a 1.11:1 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 are 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.

3.05 Escrows and Reserves

Minnesota Housing collects and holds the ODE, replacement reserves, residual receipts, if any, and the tax and insurance escrow during the loan term. Tax and insurance escrows are funded outside of the development budget.

3.06 Monitoring and Reporting Requirements

Minnesota Housing actively monitors each development including tenant incomes, rents, occupancy, and affirmative ~~action~~marketing and equal opportunity requirements. In addition, Minnesota Housing monitors ~~monthly~~ operating statements and conducts management reviews and property inspections. Minnesota Housing approves the annual budget and distributions from cash flow.

3.07 Return on Equity

Minnesota Housing currently allows a maximum return of 15 percent based on actual developer equity. Nonprofit owned developments are not allowed a distribution, unless the nonprofit is the managing general partner in a tax credit development, in which case the maximum distribution is 15% of initial equity.

3.08 Guarantees

Minnesota Housing requires at least one individual or legal entity with adequate financial capacity to guarantee all of the following:

- Construction completion; and
- All monetary obligations, including operating cost shortfalls and debt service, until the property has achieved a DCR of at least 1.11 (based on actual collected revenue less underwritten effective gross expenses, for three consecutive months); and
- All monetary obligations except principal and interest for the life of the loan

3.09 Prevailing Wage

Under certain circumstances, awards of agency funds may trigger state prevailing wage requirements under Minn. Stat. § 116J.871. In broad terms, the statute applies to awards that meet the following conditions: (1) new housing construction (not rehabilitation); and (2) a single entity receives from Minnesota Housing $200,000 or more of grant proceeds or $500,000 of loan proceeds. The statute excludes new housing construction in which total financial assistance at a single project site is less than $100,000.

Please note the following statutory provisions:

- A state agency may provide financial assistance to a person only if the person receiving or benefiting from the financial assistance certifies to the commissioner of labor and industry that laborers and mechanics at the project site during construction, installation, remodeling, and repairs for which the financial assistance was provided will be paid the prevailing wage rate as defined in section 177.42, subdivision 6. Minn. Stat. § 116J.871, subd. 2.
- It is a misdemeanor for a person who has certified that prevailing wages will be paid to laborers and mechanics under subdivision 2 [see above] to subsequently fail to pay the prevailing wage. Each day a violation of this subdivision continues is a separate offense. Minn. Stat. § 116J.871, subd. 3.

In addition, a separate prevailing wage statute, Minn. Stat. § 177.41-.43, may apply if funds are used for a building that is publicly owned or leased.

All questions regarding state prevailing wages and compliance requirements should be directed to the Department of Labor and Industry as follows:

Division of Labor Standards and Apprenticeship
Karen Bugar, State Program Administrator
443 Lafayette Road N, St. Paul, MN 55155
651-284-5091 or dli.prevwage@state.mn.us

Chapter 4 – Fees and Interest

4.01 LMIR Fees

Application Fees:

- RFP application fees apply for all LMIR loans submitted as part of the RFP. Refer to the RFP Fee Remittance Form; or
- A $250 application fee is required for all LMIR applications outside of the RFP, including refinances.

All LMIR loans:

- An origination fee of 2 percent on the first $5 million in financing and 1 percent on amounts above $5 million is also required. The minimum origination fee is $25,000.

Tax-exempt bond funded loans:

- A LMIR bridge loan/construction loan origination fee of 0.50 percent of the bond amount/bridge loan amount is required.
- Bond issuance fees will be charged as part of the development budget as follows:
  - $100,000; plus
  - 1.0 percent of the par amount of the long-term bonds; and, if applicable,
  - 0.75 percent of the par amount of the short-term bonds
- Tax-exempt bond fees, including bridge loan origination fees, are subject to revision as determined appropriate by Minnesota Housing.

4.02 Interest Rates

Interest rates will be at a fixed rate through the term of the LMIR loan.

Housing Investment Fund: Current interest rates are published on Minnesota Housing's website at www.mnhousing.gov.

- For applications received as part of Minnesota Housing's annual Consolidated RFP, interest rates are set at board selection and are subject to satisfying specific contingencies established in the selection letter, generally:
  - Board approval to enter into a loan commitment must be obtained by the specified date (generally 12 months after selection); and
  - Closing of the permanent loan by the specified date (generally the end of the third year after selection).
  - Failure to meet either of the contingencies may result in the interest rate being reset at the then current rate.

- For applications received outside of the annual Consolidated RFP, the quoted interest rate will be set at the time of approval of an engagement letter and locked for six months, after which it may be subject to adjustment at Minnesota Housing's sole discretion.

Tax-exempt bond funded loans: Interest rates are based on market rates for the bonds at the time of the sale of the bonds, plus a spread. The interest rate on the permanent LMIR loan will be fixed for the term of the loan.

4.03 Mortgage Insurance Premium

For all LMIR loans insured under HUD's Risk-share program, an MIP of 0.125 percent (Level I), or up to 0.25 percent (Level II), will be charged in addition to the interest rate on the loan. MIP is paid in advance for the first year and is included in the development cost budget and can be paid from loan proceeds. After year one, MIP is paid monthly.

4.04 Construction Oversight Fee

A construction oversight fee will be assessed to all developments receiving Minnesota Housing amortizing or deferred loans. The fee will be assessed at the lessor of 0.25 percent of the construction contract amount or 1.0 percent of total Minnesota Housing loans. This fee ~~does~~will not ~~apply to~~be assessed on LMIR refinance transactions.

Chapter 5 – How to Apply

LMIR and FFCC loans are available on an ongoing, pipeline basis (subject to funding availability). Loans are also available through the annual Consolidated RFP.

The Multifamily Application Instructions: Consolidated RFP and HTC Rounds 1 and 2, Multifamily Underwriting Standards, and application materials will be used for both RFP and year-round funding applications. To find application materials, refer to Multifamily Rental Housing Common Application Materials.

For an application outside of the RFP, refer to the Amortizing Mortgages webpage, and contact the current program manager.

Chapter 6 – Fair Housing Policy

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 nondiscrimination 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 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 7 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

7.01 Fraud

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

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in section 7.05.

7.02 Misuse of Funds

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

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

Any borrower or grantee (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in section 7.05.

7.03 Conflict of Interest

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

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

Organizational conflicts of interest occur when:

- A contracting party is unable or potentially unable to render impartial assistance or advice to Minnesota Housing due to competing duties or loyalties
- A contracting party's objectivity in carrying out their responsibilities might be otherwise impaired due to competing duties or loyalties

- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors

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

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

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all actual, perceived, or potential conflicts of interest through one of the ways described in section 7.05.

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

7.04 Suspension

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

7.05 Disclosure and Reporting

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

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

Chapter 8 – Program Contact

For questions, contact
Caryn Polito, Business Development Analyst, at 651.297.3123 or caryn.polito@state.mn.us; or
Susan Thompson, Chief Underwriter, at 651.296.9838 or susan.thompson@state.mn.us; or
the assigned housing development officer (HDO).

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Board Agenda Item: 7.C
Date: 9/24/2020

Item: Commitment, Low and Moderate Income Rental Loan (LMIR) and Low and Moderate Income Rental Bridge Loan (LMIRBL)

- Colonial Square Apartments, D0729, Mankato, MN

Staff Contact(s):
Paul Marzynski, 651.296.3797, paul.marzynski@state.mn.us

Request Type:

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

Summary of Request:
At the November 21, 2019 board meeting, the proposed development was selected for further processing under the Low and Moderate Income Rental (LMIR) under Resolution No. 19-073 in the amount of $1,790,000. At that same meeting, the project was selected for a commitment of deferred funding under the Housing Infrastructure Bonds (HIB) Loan program under Resolution No. 19-072 in the amount of $7,710,000.

Agency staff completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution to increase and authorize the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to $4,185,000. Staff also recommends the selection and commitment of a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment not to exceed $1,300,000.

All commitments are subject to the terms and conditions of the agency term letter.

Fiscal Impact:
LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the end loan without incurring financing expenses. Minnesota Housing will also earn interest rate spread income on the LMIRBL, and both the bridge loan and the end loan will generate additional fee income.

Meeting Agency Priorities:

☐ Improve the Housing System
☒ Preserve and Create Housing Opportunities
☐ Make Homeownership More Accessible
☒ Support People Needing Services
☒ Strengthen Communities

Attachments:

- Development Summary
- Resolution
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY

SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS

Project Information				
Development Name	Colonial Square Apartments		**D#0729**	**M#18133**
Address	300 Ramsey Street			
City	Mankato	**County**	Blue Earth	
Date of Selection	November 21, 2019	**Region**	Southeast	

A. Project Description and Population Served

- Colonial Square Apartments is a 77-unit acquisition and renovation of an occupied 106-year old apartment complex consisting of four two-story walk-up buildings with one, two and three-bedroom units. The development will serve workforce households and provide supportive housing for twelve units reserved for People with Disabilities (PWD).
- The development will preserve the project-based Section 8 housing assistance payments (HAP) contract which is at risk of being lost due to critical physical needs.
- All 77 units benefit from project-based Section 8 rental assistance.
- The development will be a 100% Low Income Housing Tax Credit (LIHTC) property with a 40-year Land Use Restriction Agreement (LURA). Household incomes are restricted to the 30% and 60% MTSP levels.
- Construction is anticipated to begin in October 2020 and is anticipated to open for residents in September 2021.

B. Mortgagor Information

Ownership Entity:	Tapestry Colonial Square, LLLP
Sponsor:	LaSalle Development Group, Ltd.
General Partner(s)/ Principal(s):	Tapestry Colonial Square, LLC Sole Member: Thomas W. LaSalle
Guarantor(s):	Thomas W. LaSalle Michele M. LaSalle LaSalle Development Group, Ltd.

C. Development Team Capacity Review

The sponsor, LaSalle Development Group, Ltd., has the experience and capacity to complete the project. The developer has utilized Minnesota Housing first mortgages, deferred loans, bridge loans, and low-income housing tax credits with proven success.

The property manager, Tapestry Management, LLC, was established in 1976 and has 13 affordable housing developments consisting of approximately 650 units in its portfolio. The property manager has the capacity to manage this development.

The service provider, Blue Earth County Human Services, is experienced in administering supportive services to high priority homeless (HPH) and people with disabilities (PWD) populations within the county.

The project architect, Kaas Wilson Architects, LLC, and the general contractor, Frerichs Construction Company, both have successfully completed several affordable housing developments in the agency's portfolio. The contractor and the architect have collaborated on projects and together recently completed successful in-place tenant rehabilitation projects in Mankato.

D. Current Funding Request

Loan Type	Program	Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction or End Loan
Permanent Amortizing	LMIR	Housing Investment Fund (Pool 2)	$4,185,000	4.20%	0.125%	35 yrs	35 yrs	Construction and End
Bridge	LMIRBL	Housing Investment Fund (Pool 2)	$1,300,000	4.20%	N/A	18 mths	N/A	Construction

First Mortgage Loan to Cost: 26.6% **First Mortgage Loan to Value:** 63.4%

E. Significant Changes Since Date of Selection

- First Mortgage:
  The LMIR first mortgage increased 134% from $1,790,000 to $4,185,000, mostly attributed to a large increase in the underwritten Section 8 contract rents with HUD's approval of Mark-Up-To-Market rents. As a result of the larger supportable LMIR first mortgage, the $690,000 Flexible Financing Capital Cost (FFCC) loan is no longer needed.
- HIB Loan:
  The amount of the $7,710,000 Housing Infrastructure Bond (HIB) loan is unchanged; however, $1,175,000 of this loan will be structured as a short-term HIB loan that is repaid to the agency after construction completion. The permanent HIB loan remaining with the project is $6,435,000.
- Construction Loan:
  Minnesota Housing will provide a construction-bridge loan (LMIRBL), funded with Pool 2

resources and the LMIR permanent loan will also be available for construction draws, thereby significantly reducing costs and complexity. The LMIRBL loan is interest only during construction, and will be paid off at its 18 month term.

- Tax Credit Equity:
  The tax credit equity proceeds decreased slightly by $213,585 mainly due to the federal tax credit applicable percentage rate used at selection to determine the annual tax credit amount decreasing from 3.25 percent in June 2019 to 3.07 percent as of August 2020. This decrease was slightly offset with the tax credit investor increasing the price per tax credit from $0.90 to $0.92
- Agency Deferred Loan Commitments:
  The development was originally selected with an agency $690,000 FFCC loan. With the larger LMIR first mortgage, the FFCC loan is no longer needed for this project.

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition	$4,818,000	$62,571
Construction Costs	$7,004,124	$90,963
Environmental Abatement	$125,000	$1,623
Professional Fees	$920,177	$11,950
Developer Fee	$1,700,593	$22,086
Financing Costs	$693,444	$9,006
Total Mortgageable Costs	$15,261,339	$198,199
Reserves	$449,750	$5,841
Total Development Cost	**$15,711,089**	**$204,040**

B. Permanent Capital Sources

Description	Amount	Per Unit
LMIR First Mortgage	$4,185,000	$54,351
Equity Proceeds: Enterprise Community Investment, Inc.	$4,776,668	$62,035
HIB Loan	$6,435,000	$83,571
City of Mankato Loan	$100,000	$1,299
Interim Income	$75,000	$974
Rebates	$14,000	$182
Deferred Developer Fee	$125,420	$1,629
Total Permanent Financing	**$15,711,089**	**$204,040**

C. Financing Structure

- The development will qualify for an estimated $519,000 of annual 4% tax credits, providing approximately $4,776,000 of equity proceeds from Enterprise Community Investment, Inc. The term of the LURA will be 40 years.
- The $1,300,000 LMIRBL construction loan provided by the agency has a 4.20 percent interest rate and an 18-month term. There is no MIP on this loan as it is not insured via the HUD risk share program
- After construction completion, the $4,185,000 LMIR first mortgage will have a 4.20 percent interest rate plus 0.125 percent MIP with a 35-year amortization and a 35-year term. The LMIR loan will close at the construction closing and funds will be available for use during the construction period. There will be interest only payments during construction. HUD Risk Sharing insurance, amortization and MIP will commence approximately 18 months after the construction closing.
- The $7,710,000 HIB deferred loan has a 0.00% interest rate and will be co-terminus with the LMIR first mortgage term. As previously noted, $1,175,000 of the HIB loan will be repaid approximately 18 months after the construction closing. The remaining HIB loan of $6,435,000 stays as a permanent source for the project. The interest rate can be set up to 1.00% if requested by the limited partner investor prior to closing. The HIB loan is funded with agency HIB volume cap tax exempt bonds needed to secure the 4% tax credits for the development. As previously indicated, the board approved the commitment for this loan at the meeting on November 21, 2019.

D. Cost Reasonableness

- Predictive Cost Model Estimate:
  The budgeted total development cost (TDC) per unit of $204,040 is 37.4% above the $148,758 predictive cost model estimate for the development, which exceeds the 25% allowable threshold. The board approved a waiver of this threshold at the November 21, 2019 board meeting. The current 37.4% is slightly higher than the 34.9% originally reviewed at the November 2019 board meeting. The agency architect has reviewed the project's construction costs and determined the costs are reasonable given the extensive scope of work for the 106-year-old building.

- Cost Containment:
  The development did not receive cost containment points.

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SECTION III: UNDERWRITING

A. Rent Grid

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (%, of MTSP or AMI)	Rental Assistance Source
1BR	33	$630	50% MTSP	50% MTSP	Project-based Section 8
1BR	4	$670	50% MTSP	50% MTSP	Project-based Section 8
1BR	12	$998	50% MTSP	30% MTSP	Project-based Section 8
1BR	5	$998	50% MTSP	30% MTSP	Project-based Section 8
2BR	3	$630	50% MTSP	30% MTSP	Project-based Section 8
2BR	20	$746	50% MTSP	50% MTSP	Project-based Section 8

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits.

B. Feasibility Summary

All projects are underwritten within the agency's underwriting guidelines, unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- The project maintains positive cash flow for 15 years, with a projected debt coverage ratio (DCR) of 1.01 in year 15.
- The project was underwritten at 5.0 percent vacancy, and at a 1.5 percent income and 3.0 percent expense inflators.
- Twelve units designated for PWD households will benefit from supportive services and rental assistance through project-based Section 8.
- Replacement reserves are budgeted at $450 per unit per year. $57,900 of replacement reserves is being capitalized and will be funded from the third equity installment approximately 18 months after closing.
- The project is anticipated to close in early November with a 12 month construction period. Stabilized operations are anticipated to be reached by February 2022.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
AND LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIRBL) 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:	Colonial Square Apartments
Sponsors:	LaSalle Development Group, Ltd.
Guarantors:	Thomas W. LaSalle Michele M. LaSalle LaSalle Development Group, Ltd.
Location of Development:	Mankato
Number of Units:	77
Amount of LMIR Mortgage: (not to exceed)	$4,185,000
Amount of LMIRBL (not to exceed)	$1,300,000

WHEREAS, Agency staff 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 and rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide permanent mortgage loans to the sponsor or an affiliate thereof from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $4,185,000; and

2. The interest rate on the permanent LMIR loan shall be 4.20 percent per annum (subject to change, as set forth in the attached Agency term letter dated September 23, 2020), plus 0.125 percent per

annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 35-year amortization; and

3. The term of the permanent LMIR loan shall be 35 years; and

4. The amount of the LMIRBL shall not exceed $1,300,000; and

5. The interest rate on the LMIRBL shall be 4.20 percent, and the principal will be due in a balloon payment no more than 18 months after closing; and

6. The closing of the LMIR and the LMIRBL shall be on or before March 31, 2021; and

7. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

8. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and

9. The sponsor shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

10. The sponsor shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

11. The sponsor, the general contractor, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 24th day of September 2020

____
CHAIRMAN

MINNESOTA HOUSING

400 Wabasha Street North, Suite 400
St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | **TTY:** 651.297.2361
www.mnhousing.gov

September 16, 2020

Richard Bienapfl
Tapestry Colonial Square, LLC
2001 Killebrew Dr Ste 100
Bloomington, MN 55425

RE: Term Letter
Colonial Squire Apartments, Mankato
MHFA Development #D0729, Project # M18133

Dear Mr. Bienapfl:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower:	A single asset entity: Tapestry Colonial Square, LLLP
General Partner:	Tapestry Colonial Square, LLC Sole Member: Thomas W. LaSalle
Development Description/Purpose:	Colonial Square Apartments is the acquisition and renovation of a 77-unit apartment building located in Mankato, Minnesota

Program	**Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)**	**Housing Infrastructure Bonds (HIB) Loan**	**LMIR Bridge Loan**
Loan Amount	$4,185,000	$7,710,000	$1,300,000
Interest Rate	*4.20%	0.00%	4.20%
Mortgage Insurance Premium (%)	0.125% *(first year premium is paid in advance)*	Not Applicable	Not Applicable
Term	35 Years	35 Years**	18 months
Amortization/Repayment	Interest only during construction / then 35 Years Amortization	Deferred lump sum payment due in 35 years.**	Interest only during term
Prepayment Provision	No prepayment first 10 years from date of the Note	No prepayment first 10 years from date of the HIB Note**	Prepay at any time without penalty
Nonrecourse or Recourse	Nonrecourse	Nonrecourse	Recourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	Construction/ Permanent Loan	Construction/ Permanent Loan	Construction Bridge Loan
Lien Priority	First	Second (Third during construction)	Second

*Subject to change. The interest rate is subject to achieving the following hurdles. Failure to meet either of the hurdles may result in the interest rate being reset at the then current rate, at Minnesota Housing's sole discretion:

- Board approval to enter into a loan commitment must be obtained by December 31, 2020; and
- The permanent loan must close by December 31, 2022.

** $1,275,000 of the HIB loan will be repaid upon funding of the third equity installment to occur no later than 18 months from construction closing. The remaining $6,435,000 HIB Loan stays as a permanent source.

Origination Fee: LMIR HUD Risk Share Loan: $83,700
Agency Bridge Loan: $13,000
HIB Loan: $77,100
(payable at the earlier of loan commitment or loan closing)

Inspection Fee: $16,213
(payable at the earlier of loan commitment or loan closing)

Guaranty/Guarantor(s): Completion, repayment and operations Guaranty to be provided by:

- Thomas W. LaSalle as managing member and personal guarantor
- Michele M. LaSalle, as additional guarantor
- LaSalle Development Group, Ltd. as additional guarantor

Operating Deficit Reserve Account: Not Applicable

Operating Cost Reserve Account: Not Applicable.

Replacement Reserve Account: A replacement reserve will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $2,887.50. The replacement reserve will be held by Minnesota Housing. Additional capitalized replacement reserve in the amount of $57,900 will be funded from the third equity installment and will be held by the Agency.

Escrows: Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.

Collateral/Security: Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.

HAP or other subsidy agreement See attached Deferred Selection Criteria.

Rent and Income Requirements:

LMIR

- 77 units restricted as follows:
- At a minimum, 31 units with rents and incomes not exceeding 60% MTSP;
- Up to 19 units may have unrestricted incomes; and,
- the balance of units with incomes equal to or less than 100% of the greater of area or statewide median income as determined by HUD.

HIB Loan

- 77 units restricted as follows:
- 8 units with incomes not exceeding 80% MTSP and rents at 80% MTSP; and
- 49 units with incomes not exceeding 50% MTSP and rents at 50% MTSP; and
- 20 units with incomes not exceeding 30% MTSP and rents at 30% MTSP.
    - Notwithstanding these restrictions, in no case may the initial income exceed 80% of the greater of state or area median income as determined by HUD, and the rents may not exceed the Affordable to the Local Workforce rent limits, as published by MHFA.

Other Occupancy: 12 People with Disabilities (PWD) units.

Other Requirements: The HIB loan is subject to the terms in the attached Deferred Selection Criteria.

Closing Costs: Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.

Expiration Date: This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Minnesota Housing board approval of a loan commitment.

Board Approval: Commitment of all loans under the LMIR and LMIR Bridge Loan programs are subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loans.

Not a Binding Contract: This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau at maggie.nadeau@state.mn.us on or before September 30, 2020.

If you have any questions related to this letter, please contact Paul Marzynski at 651.296.3797 or by e-mail at paul.marzynski@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

TAPESTRY COLONIAL SQUARE, LLLP

By: Tapestry Colonial Square, LLC
Its: General Partner

By: ______________________________________
Richard Bienapfl, its Authorized Representative

Date Accepted: __________________________

MINNESOTA HOUSING

Selection Criteria Related to 2019 RFP/2020 HTC Round 1

Project Name: Colonial Square Apartments

Project City: Mankato

Property Number (D#): D0729

Project Number: M18133

People with Disabilities

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)	
☑ 15% to 25%	10 Pts	☑ 15% to 25%	10 Pts	Number of Units	12

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The Owner agrees units will be set aside and rented to households with a disability with income limits at 30% MTSP. The Owner also agrees that if units set aside for High Priority Homeless are occupied by households without rental assistance, the gross rents, including an allowance for tenant-paid utilities cannot exceed the required rent restrictions.

Units cannot be restricted to persons of a particular age group and must be provided in an integrated setting for the term of the loan/extended use period (Declaration of Land Use Restrictive Covenants)

The units must be set aside and rented to persons with the following disabilities in a manner consistent with Minnesota Statutes, Section 462A.222, subdivision 3, subparagraph (d)(3):
a. A serious and persistent mental illness as defined in MN Statutes Section 245.462, Subdivision 20, Paragraph C; or
b. A developmental disability as defined in United States Code, Title 42, Section 6001, Paragraph (5), as amended; or
c. Assessed as drug dependent persons as defined in MN Statute Section 254A.02, Subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in MN Statute Section 254A.02, Subdivision 2; or
d. A brain injury as defined in MN Statute Section 256B.093, Subdivision 4, Paragraph (a); or
e. Permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the Project are accessible as provided under Minnesota Rules, Chapter 1341.

Permanent Supportive Housing for High Priority Homeless and People with Disabilities selection criteria cannot be claimed for the same units.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Rental Assistance

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ 100% of the total units	15 Pts	☐ 100% of the total units	0 Pts	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion.

For purposes of this category, project-based rental assistance is defined as project-specific funding stream that supports the operations of the property, reduces the tenant burden, and provides the tenant portion of rent to be no greater than 30% of household income except as approved by Minnesota Housing. The project must comply with the requirements in the Self-Scoring Worksheet and Deferred Loan Priority Checklist.

Minnesota Housing, at its sole discretion, will consider rental assistance programs with alternative rent structures as proposed by the applicant, where households may pay more than 30% of their household income when the program goals align with the needs of low-income populations such as with the Moving to Work and site-based Housing Support programs**.**

Rental Assistance and Serves Lowest-Income Tenants/Rent Reduction selection criteria cannot be claimed for the same units. The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Rental Assistance – 10 Year

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Development agrees to provide the project based rental assistance for a minimum 10 years	4 Pts	☐ Development agrees to provide the project based rental assistance for a minimum 10 years	0 Pts	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan/HTC document(s) will include requirements to meet this criterion. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The owner will be required to continue renewals of project based housing subsidy payments for a minimum of 10 years. The owner must continue renewals of existing project based housing subsidy payment contract(s). The owner agrees that rents will remain affordable at 50% MTSP income limits for a 10 year period if rental assistance is not available for the full period.

The 10 year period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

Rental Assistance – Further Restricted Rental Assisted Units (FRRA)

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ 25.1% to 50% of units	5 Pts	☐ 25.1% to 50% of units	0 Pts	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

Owner agrees to further restrict units to households whose incomes do not exceed 30% of MTSP income limit for a 10 year period. The 10 year period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

Workforce Housing Communities

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Top Job Center or Net Five Year Job Growth Community	6 Pts	☑ Top Job Center or Net Five Year Job Growth Community	6 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Location Efficiency – Access to Transit

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ One quarter mile of a planned or existing public transportation fixed route stop	7 Pts	☑ One quarter mile of a planned or existing public transportation fixed route stop	7 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Location Efficiency – Walkability

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Walk Score between 50 and 69	1 Pts	☑ Walk Score between 50 and 69	1 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Community Development Initiative

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Contributes to Planned Community Development efforts	3 Pts	☑ Contributes to Planned Community Development efforts	3 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Rural/Tribal

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Rural/Tribal Designate Area	10 Pts	☑ Rural/Tribal Designate Area	10 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

QCT/Community Revitalization and Tribal Equivalent Areas

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ QCT Community Revitalization Area or a Tribal Equivalent Area	1 Pts	☑ QCT Community Revitalization Area or a Tribal Equivalent Area	1 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Preservation – Existing Rental Assistance

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ 100% of units	30 Pts	☑ 100% of units	30 Pts	Number of Units 77

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will require the Owner to continue renewals of existing project-based housing subsidy payment contracts(s) for as long as the assistance is available. Except for “good cause,” the Owner must not evict existing subsidized residents and must continue to renew leases for those residents.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Intermediary Costs

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ 15.1 to 20%	3 Pts	☑ 15.1 to 20%	3 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Cost Containment

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Cost Containment	6 Pts	☐ Cost Containment	0 Pts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through underwriting at 8609.

Smoke Free Building

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Smoke Free Buildings	1 Pts	☑ Smoke Free Buildings	1 Pts	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include that the owner must maintain a smoke free policy and include a non-smoking clause in the lease for every household for the term of the loan/LURA.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Total Developer Claimed: **102** **Total Agency Awarded** **72**

The project's application was originally submitted as a dual application. The selection criteria below was claimed as part of the 9% application and will apply to this project with a 4% financial structure.

Long Term Affordability

Developer Claimed Criteria	Developer Claimed HTC Pts	Agency Confirmed Criteria	Agency Awarded HTC Points	Number of Units (Agency Validated)
☑ Long-term affordability for a minimum of 40 years		☑ Long-term affordability for a minimum of 40 years		

Loan/HTC Commitment and Compliance Monitoring

Owner agrees to extend the term of the LURA and/or waive their right to Qualified Contract for the applicable term.

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MINNESOTA HOUSING

Board Agenda Item: 7.D
Date: 9/24/2020

Item: Loan and Selection and Commitment, Flexible Financing for Capital Costs Loan (FFCC)

- Birchwood Apartments, D8198, Duluth, MN

Staff Contact(s):
Sarah Woodward, 651.297.5145, sarah.woodward@state.mn.us

Request Type:

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

Summary of Request:
At the November 21, 2019 board meeting, the proposed development was selected for a commitment of deferred funding under the Housing Infrastructure Bond (HIB) program under Resolution No. 19-072. Agency staff completed the underwriting and technical review of the proposed development and recommends the issuance of a deferred funding commitment in an amount up to $1,114,000 under the Flexible Financing for Capital Costs (FFCC) program to address a project funding gap.

All commitments are subject to the terms and conditions of the Agency term letter.

Fiscal Impact:
The Agency will not earn interest revenue as the loan does not carry an interest rate. The Agency will earn a construction oversight fee on the loan.

Meeting Agency Priorities:

☐ Improve the Housing System
☒ Preserve and Create Housing Opportunities
☐ Make Homeownership More Accessible
☒ Support People Needing Services
☐ Strengthen Communities

Attachments:

- Background
- Resolution
- Resolution Attachment: Term Letter

Background:

At its November 21, 2019 meeting, the Minnesota Housing board approved selection of Birchwood Apartments for a commitment under the Housing Infrastructure Bond (HIB) program in the amount of $6,337,712.

During underwriting it was determined that as structured, certain project costs were ineligible to be funded from HIB proceeds, including project operating reserves, developer fees, and acquisition costs; therefore, staff recommends replacing $959,712 of the HIB loan with FFCC funds. The remaining HIB loan will not exceed $5,378,000.

In addition, the FFCC loan will also cover $154,000 of project cost increases due primarily to the need for additional capitalized operating reserves to support operations through the first 15 years. This will result in a total FFCC loan of up to $1,114,000.

Staff requests the board approve an FFCC loan commitment of an amount up to $1,114,000.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX
MODIFYING RESOLUTION NO. MHFA 19-072

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM

WHEREAS, the Board has previously selected the Birchwood Apartments for a commitment of deferred funding under the Housing Infrastructure Bond (HIB) program under Resolution No. 19-072; and

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

WHEREAS, Agency staff have determined that there are ineligible costs under the HIB funding that require an alternative source of funding; and

WHEREAS, Agency staff recommend to the Board to the development be selected for a loan under the FFCC program as set out below.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to the sponsor or an affiliate thereof from the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the FFCC deferred loan shall not exceed $1,114,000; and
2. Repayment of the FFCC loan shall be deferred, with interest at 0.0 percent, and the loan term shall be 30 years; and
3. The loan closing shall occur on or before July 21, 2021; and
4. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms.

Adopted this 24th day of September 2020

____
CHAIRMAN

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MINNESOTA HOUSING

400 Wabasha Street North, Suite 400
St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | TTY: 651.297.2361
www.mnhousing.gov

September 2, 2020

Nancy Cashman
Birchwood Apartments of Duluth Developer, LLC
Center City Housing Corp.
105 ½ W. 1st St.
Duluth, MN 55802

RE: Term Letter
Birchwood Apartments, Duluth
D#8198 M#18127

Dear Ms. Cashman:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: Birchwood Apartments of Duluth Developer, LLC

Managing Member: Wholly owned by: CENTER CITY HOUSING CORP.

Development Description/Purpose: New construction of a 30-unit affordable housing development located in Duluth, Minnesota

Program	Housing Infrastructure Bonds –Behavioral Health (HIB –BH)	Flexible Financing for Capital Costs (FFCC)
Loan Amount	$5,378,000	$1,114,000
Interest Rate	0.0%	0.0%
Mortgage Insurance Premium (%)	Not Applicable	Not Applicable
Term	30 years	30 years
Amortization/Repayment	Loan forgivable after 30 years.	Deferred lump sum payment due in 30 years.
Prepayment Provision	No prepayment first 10 years from date of the HIB Note.	Prepay at any time without penalty.

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Nonrecourse or Recourse	Nonrecourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	Construction/Permanent Loan	Construction/Permanent Loan
Lien Priority	First	Second

Origination Fee:	HIB Loan: $51,890 (payable at the earlier of loan commitment or loan closing)
Inspection Fee:	$11,660 (payable at the earlier of loan commitment or loan closing)
Guaranty/Guarantor(s):	Completion Guaranty to be provided by: • Center City Housing Corp.
Operating Deficit Reserve Account:	Capitalized operating deficit reserve in the amount of $367,000 funded at closing. The operating deficit reserve will be held by Minnesota Housing.
Operating Cost Reserve Account:	Not applicable
Replacement Reserve Account:	A replacement reserve will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $1,125. The replacement reserve will be held by Minnesota Housing.
Escrows:	Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other Subsidy Agreement:	Commitment to 10 years of affordability from the date of loan closing under the Housing Support Program for 30 units.
Rent and Income Requirements:	Commitment to 30 years of affordability from the date of loan closing. HIB: 30 units with incomes not exceeding 60% MTSP and rents at 60% MTSP. Notwithstanding these restrictions, in no case may the initial income exceed 80% of the greater of state or area median income as determined by HUD, and the rents may not exceed the Affordable to the Local Workforce rent limits, as published by MHFA. FFCC: 30 units with incomes not exceeding 60% MTSP and rents at 60% MTSP.
Other Occupancy Requirements:	7 High Priority Homeless units that are set aside and rented to single adults for the term of the loans.

30 units are occupied by behavioral health households for the term of the loans.

Other Requirements: The HIB and FFCC loans are subject to the terms in the attached Deferred Selection Criteria.

Closing Costs: Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.

Expiration Date: This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Minnesota Housing board approval of a loan commitment.

Additional Terms: Not applicable

Other Conditions: Not applicable

Board Approval: Commitment of all loans under the FFCC program is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loan.

Not a Binding Contract: This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau at maggie.nadeau@state.mn.us on or before September 16, 2020.

If you have any questions related to this letter, please contact Sarah Woodward at 651.297.5145 or by e-mail at sarah.woodward@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

BIRCHWOOD APARTMENTS OF DULUTH DEVELOPER, LLC

By: ______________________
Nancy Cashman

Date Accepted: 9/7/2020

MINNESOTA HOUSING

Selection Criteria Related to 2019 RFP/2020 HTC Round 1

Project Name: Birchwood Apartments
Project City: Duluth
Property Number (D#): D8198
Project Number: M18127

Permanent Supportive Housing for High Priority Homeless

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
☑ 10% to 49.99%	☑ 10% to 49.99%	Single Adults	7

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The Owner agrees that if units set aside for High Priority Homeless are occupied by households without rental assistance, the gross rents, including an allowance for tenant-paid utilities cannot exceed the required rent restrictions and will be incorporated into the loan and HTC documents.

The Owner agrees units will be set aside and rented to High Priority Homeless who are a household prioritized for permanent supportive housing by Coordinated Entry System (HPH units) and targeted to the populations indicated.

Permanent Supportive Housing for High Priority Homeless and People with Disabilities selection criteria cannot be claimed for the same units.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Permanent Supportive Housing for High Priority Homeless – CoC Priority 1

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
☑ Continuum of Care Household Type Priority One	☑ Continuum of Care Household Type Priority One	Number of Units	7

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units that the Owner agrees the project will target to Continuum of Care Household Type Priority One.

People with Disabilities

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
✓ 15% to 25%	✓ 15% to 25%	Number of Units	5

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The Owner agrees units will be set aside and rented to households with a disability with income limits at 30% MTSP. The Owner also agrees that if units set aside for High Priority Homeless are occupied by households without rental assistance, the gross rents, including an allowance for tenant-paid utilities cannot exceed the required rent restrictions.

Units cannot be restricted to persons of a particular age group and must be provided in an integrated setting for the term of the loan/extended use period (Declaration of Land Use Restrictive Covenants)

The units must be set aside and rented to persons with the following disabilities in a manner consistent with Minnesota Statutes, Section 462A.222, subdivision 3, subparagraph (d)(3):

a. A serious and persistent mental illness as defined in MN Statutes Section 245.462, Subdivision 20, Paragraph C; or

b. A developmental disability as defined in United States Code, Title 42, Section 6001, Paragraph (5), as amended; or

c. Assessed as drug dependent persons as defined in MN Statute Section 254A.02, Subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in MN Statute Section 254A.02, Subdivision 2; or

d. A brain injury as defined in MN Statute Section 256B.093, Subdivision 4, Paragraph (a); or

e. Permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the Project are accessible as provided under Minnesota Rules, Chapter 1341.

Permanent Supportive Housing for High Priority Homeless and People with Disabilities selection criteria cannot be claimed for the same units.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Rental Assistance

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
✓ 100% of the total units	✓ 100% of the total units	Number of Units	30

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion.

For purposes of this category, project-based rental assistance is defined as project-specific funding stream that supports the operations of the property, reduces the tenant burden, and provides the tenant portion of rent to be no greater than 30% of household income except as approved by Minnesota Housing. The project must comply with the requirements in the Self-Scoring Worksheet and Deferred Loan Priority Checklist.

Minnesota Housing, at its sole discretion, will consider rental assistance programs with alternative rent structures as proposed by the applicant, where households may pay more than 30% of their household income when the program goals align with the needs of low-income populations such as with the Moving to Work and site-based Housing Support programs.

Rental Assistance and Serves Lowest-Income Tenants/Rent Reduction selection criteria cannot be claimed for the same units. The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Rental Assistance – 10 Year

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
✓ Development agrees to provide the project based rental assistance for a minimum 10 years	✓ Development agrees to provide the project based rental assistance for a minimum 10 years	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan/HTC document(s) will include requirements to meet this criterion. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

The owner will be required to continue renewals of project based housing subsidy payments for a minimum of 10 years. The owner must continue renewals of existing project based housing subsidy payment contract(s). The owner agrees that rents will remain affordable at 50% MTSP income limits for a 10 year period if rental assistance is not available for the full period.

The 10 year period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

Rental Assistance – Further Restricted Rental Assisted Units (FRRA)

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
✓ 25.1% to 50% of units	✓ 25.1% to 50% of units	Number of Units 8

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include the number of units required to meet this criterion for the term of the loan/LURA. Specific performance requirement relief provisions are available for projects that meet the selection criterion and will be incorporated into the loan and HTC documents.

Owner agrees to further restrict units to households whose incomes do not exceed 30% of MTSP income limit for a 10 year period. The 10 year period begins for HTC developments at the time of Placed in Service (PIS) or for deferred only loan transactions, the closing date.

Economic Integration

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
✓ Second Tier	✓ Second Tier	

Loan/HTC Commitment and Compliance Monitoring

Economic Integration 1 a)

The owner agrees the project will provide at least 25% but not greater than 80% of the total units as affordable units. The deferred loan and HTC document(s) will include the number of units required to meet this criterion.

If the development was located in an economic integration area, eligibility was determined at the time of selection.

Economic Integration 1 b)

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

Workforce Housing Communities

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
✓ Top Job Center or Net Five Year Job Growth Community	✓ Top Job Center or Net Five Year Job Growth Community	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Location Efficiency – Access to Transit

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ One quarter mile of a planned or existing public transportation fixed route stop	☑ One quarter mile of a planned or existing public transportation fixed route stop	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Community Development Initiative

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Contributes to Planned Community Development efforts	☑ Contributes to Planned Community Development efforts	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection.

Intermediary Costs

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ 20.1 to 25%	☑ 20.1 to 25%	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through the underwriting phase.

Cost Containment

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Cost Containment	☐ Cost Containment	

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be monitored through underwriting at 8609.

Universal Design

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)	
☑ Elevator Building	☑ Elevator Building	Number of Units	30

Loan/HTC Commitment and Compliance Monitoring

Eligibility was determined at the time of selection and will be validated during the underwriting phase and architectural review.

Smoke Free Building

Developer Claimed Criteria	Agency Confirmed Criteria	Number of Units (Agency Validated)
☑ Smoke Free Buildings	☑ Smoke Free Buildings	

Loan/HTC Commitment and Compliance Monitoring

The deferred loan and HTC document(s) will include that the owner must maintain a smoke free policy and include a non-smoking clause in the lease for every household for the term of the loan/LURA.

The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan/LURA.

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MINNESOTA HOUSING

Board Agenda Item: 8.A
Date: 9/24/2020

Item: Equity and Inclusion

Staff Contact(s):
Jennifer Ho, 651.296.5738, jennifer.ho@state.mn.us
Jodell Swenson, 651.296.4225, jodell.swenson@state.mn.us

Request Type:

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

Summary of Request:
Jennifer Ho will provide an overview of how we are proceeding with the Equity and Inclusion work at the Agency.
The Agency is inviting Board Members to complete the Intercultural Development Inventory® (IDI®), with personalized coaching.

Fiscal Impact:
none

Meeting Agency Priorities:
- ☒ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☒ Strengthen Communities

Attachment(s):
- PowerPoint provided at a later date
- Intercultural Development Inventory Background

The Intercultural Development Inventory® (IDI®) is a tool used to assess an individual's intercultural competence. Based on their results, individuals develop Individual Development Plans to strengthen their intercultural competence. Commissioner Ho and the Servant Leadership Team believe that a more culturally competent workforce will create a work environment where all can be their authentic selves, and will develop and manage programs that most effectively address systemic racism and inequities.

Minnesota Housing has contracted with The Woke Coach for all members of the Servant Leadership Team, managers of people, and members of the Cultural Competency Committee to complete the IDI and receive personalized coaching. We invite interested members of the Board of Directors to complete the IDI and participate in two coaching sessions with The Woke Coach.

MINNESOTA HOUSING

Board Agenda Item: 9.A
Date: 9/24/2020

Item: Post-Sale Report, Housing Infrastructure Bonds, 2020 Series ABCD

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Request Type:

☐ Approval
  ☐ Motion
  ☐ Resolution

☒ No Action Needed
  ☐ Discussion
  ☒ Information

Summary of Request:
The Agency sold $108,280,000 of State Appropriation (Housing Infrastructure) Bonds, 2020 Series ABCD on August 19, 2020 with a closing on September 1, 2020. In accordance with the Debt and Balance Sheet Management Policy the attached post-sale report is provided by the Agency's financial advisor, CSG Advisors.

Fiscal Impact:
None.

Meeting Agency Priorities:
- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☒ Strengthen Communities

Attachment(s):
- Post-Sale Report

CSG advisors

Via Email Delivery

MEMORANDUM

Date: **September 1, 2020**

To: **Minnesota Housing Finance Agency**

From: **Gene Slater, Eric Olson**

Re: **Post-Sale Report**
$108,280,000 State Appropriation Bonds (Housing Infrastructure)
2020 Series ABCD

KEY RESULTS FOR MINNESOTA HOUSING

Purpose. Minnesota Housing issued the $108,280,000 2020 Series ABCD State Appropriation Bonds to fund loans to 16 multifamily housing developments with a total of 893 units and to fund loans to one or more Community Land Trusts. Bond proceeds were also used to cover the costs of issuance.

The Housing Infrastructure Loans are expected to be 0% interest, non-amortizing, nonrecourse deferred loans that may also be forgivable if the conditions for use are met. The loans do not provide the security for or help repay the bonds. The bonds are paid solely from the State's general fund appropriation.

Under the relevant authorizing legislation, Minnesota Housing may use bond proceeds to make loans to help finance:

- all or a portion of the costs of the construction, acquisition and rehabilitation of supportive housing for individuals and families who are without a permanent residence,
- all or a portion of the costs of the acquisition and rehabilitation of abandoned or foreclosed property to be used for affordable rental housing and the construction of rental housing on that property where the existing structures will be demolished or removed,
- that portion of the costs of the acquisition of abandoned or foreclosed property that is attributable to the land to be leased by community land trusts to low and moderate income homebuyers,
- the costs of acquisition, improvement and infrastructure of manufactured home parks;
- all or a portion of the costs of acquisition, rehabilitation, adaptive reuse, or new construction of senior housing;
- all or a portion of the costs of the acquisition and rehabilitation or refinancing of federally assisted rental housing, including refunding outstanding bonds issued by the Agency or another governmental unit, and
- all or a portion of the costs of the construction, acquisition, and rehabilitation of supportive housing for girls and women to provide them protection from and the means to escape exploitation and trafficking.

Post-Sale: MHFA $108,280,000 State Appropriation Bonds (Housing Infrastructure), 2020ABCD September 1, 2020

Ninth Housing Infrastructure Financing. The 2020 Series ABCD issue is the ninth financing under this indenture. All of the financings are summarized in the following table.

$15,460,000	2013 Series A/B
$14,540,000	2014 Series A/B
$37,570,000	2015 Series A/B
$31,095,000	2015 Series C 2016
$18,625,000	Series A/B/C 2017
$12,690,000	Series A 2018 Series
$25,295,000	A/B/C/D 2019 Series
$26,775,000	A/B/C/D
$182,050,000	Total prior series
$108,280,000	2020 Series A/B/C/D
$290,330,000	Total to date

While all of the Housing Infrastructure financings are secured on a parity basis, particular series are issued under different appropriations limits covering both par amount and annual debt service.

KEY FEATURES OF THE BONDS

Limited Obligations of Minnesota Housing. The bonds are not secured or guaranteed by Minnesota Housing and are payable solely from the State Appropriations. The bonds are now listed as liabilities on Minnesota Housing's financial statements.

Appropriations Risk. The Housing Infrastructure State Appropriations are a standing annual appropriation that does not require any further action by the Legislature for payments to be made in future years. As provided by Minnesota law, a standing appropriation may be reduced or repealed entirely by the Legislature; this would have significant credit consequences for the State. Due to this possible non-appropriation risk, the bonds are therefore rated slightly below the state General Obligation bonds (which are rated Aa1 by Moody's, AAA by Standard & Poor's, and AAA by Fitch).

Ratings. The bonds are rated Aa2 by Moody's and AA+ by Standard & Poor's.

Multiple Series. The issue was divided into four series – A, B, C, and D – to facilitate distinctions between statutory authorization years of the state appropriations, between exempt facility bonds and governmental purpose bonds, and between certain types of developments to be funded (behavioral health, in particular). The breakdown between series is summarized below.

- 2020A ($18,570,000): Governmental (Behavioral Health) – 2018 Authorization
- 2020B ($38,900,000): Governmental (Other) – 2018 Authorization
- 2020C ($7,055,000): Private Activity (Other) – 2018 Authorization
- 2020D ($43,755,000): Private Activity (Other) – 2019 Authorization

Facilitating Access to Low Income Housing Tax Credits. The Series C and D bonds are private activity bonds using volume cap. As such, bond proceeds can help the developments qualify for 4% low income housing tax credits that can help further leverage the state appropriation.

Bond Structure. Series A, B, and C were structured together to provide level annual debt service on a combined basis over the remaining 21 years of the 2018 authorization, with a final bond maturity of 8/1/2041. Interest is capitalized through 2/1/2021 since the next appropriation available for debt service will be 7/15/2021. The earliest maturities (2021-2024) were assigned to Series C, the middle maturities (2024-2031) were assigned to Series B, and the latest maturities (2031-2041) were assigned to Series A. This created larger maturities within each series compared to amortizing all three series pro-rata out to 2041, enhancing marketability of the bonds. This will also simplify administration of the overall bond issue when individual series pay off, starting with Series C in 2024.

Series D using 2019 authorization was structured with level annual debt service and capitalized interest through 2/1/2022 given that the next available appropriation will be 7/15/2022. Series D has a final bond maturity of 8/1/2043.

Given good market conditions and the relatively large size of the overall transaction and thus the individual maturities compared to those in MHFA's prior issues, all bonds were able to be sold as serial maturities.

Couponing and Original Issue Discounts/Premiums: The bonds were structured with a mix of coupons ranging from 2% to 4% to appeal to a wide range of different investors, helping maximize investor demand. All Series A and B maturities have 4% coupons, Series C has a mix of 2%, 3%, and 4% coupons, and Series D has mostly 4% coupons but with one maturity at 2% and one at 3%. All bonds were sold at premiums, with an aggregate net reoffering premium of $23,088,184.70.

UNDERWRITING

RBC Capital Markets served as senior managing underwriter, with J.P. Morgan, Piper Jaffray & Co., and Wells Fargo Securities as co-managers.

On Tuesday, August 18th, the day before the pricing, RBC shared pricing views from themselves and their co-managers, along with their consensus proposed scale. CSG also independently provided Minnesota Housing with pre-pricing comparables (see post-pricing version attached).

On a conference call, representatives of Minnesota Housing, Minnesota Management and Budget, CSG, and RBC discussed market conditions, the proposed structure and pricing levels, and the pricing schedule and steps for the following day. RBC indicated that they had a particularly strong understanding of the current market for Minnesota bonds given that they had won the competitive bid on the State's $330,360,000 2020A and $128,115,000 2020D general obligation issues a week prior and were still working off some remaining balances. Shortly after the call, RBC circulated a draft pricing wire reflecting the discussion. Consistent with past issues, the wire included first priority for Minnesota individual retail orders up to $250,000 each.

The morning of the pricing, Wednesday, August 19th, RBC indicated that they released the pricing wire unchanged from the prior afternoon. RBC ran the order period from approximately 8:32 AM to 10:30 AM CDT. During this time, roughly $206.1 million of orders were received (excluding $21.3 million of stock orders from the underwriters themselves), representing an overall oversubscription factor of 1.9x. All maturities except 2021 and 2029 were oversubscribed, with the oversubscriptions ranging from 1.1x to 3.1x. Approximately $8.8 million of individual retail orders were received, with $6.5 million from co-manager Piper Sandler, $1.9 million from co-manager Wells Fargo, and $0.4 million from co-manager J.P. Morgan.

Following the order period, RBC shared the order summary and their proposed adjustments. These included yield decreases from 1 to 2 basis points on all maturities with subscription levels greater than 1.6x. Overall, the all-in true interest cost with the proposed adjustments was approximately 2.12%.

On a wrap-up call at 12:00 PM CDT, representatives of Minnesota Housing, Minnesota Management and Budget, CSG, and RBC discussed the results of the order period and RBC's proposed adjustments. RBC offered to underwrite the issue at adjusted levels, including approximately $3.0 million of unsold bonds. At the conclusion of the call, Minnesota Housing gave RBC the verbal award.

The total underwriter's discount was $641,404.22 or approximately 0.592% of the $108,280,000 bond par amount. Takedowns were $3.75 for bonds maturing from 2021 through 2030 and $5.00 for all other bonds. Management fees and takedowns were appropriate, consistent with industry standards, and in the same range as fees reported for other issues of similar credit, size and structure.

MARKET CONDITIONS

Treasuries. Over the week leading up to the sale of the bonds, U.S. Treasury yields trended upward, with the 10-year up 3 basis points to 0.67% and the 30-year up 8 basis points to 1.40% On pricing day, the 10-year rose 1 basis point to 0.68% and the 30-year rose 2 basis points to 1.42%.

Municipals. Similar to treasuries, municipal rates trended upward in the week prior to the bond sale. 10-year MMD increased 9 basis points to 0.67%, while 30-year MMD increased 12 basis points to 1.39%. On pricing day, MMD was unchanged from 2021 to 2027, increased by 2 basis points in 2028, increased by 3 basis points from 2029 to 2031, and increased by 4 basis points from 2032 to 2050.

COMPARABLES

Attached are listings of recent comparable bond pricings. The first page shows recent general obligation bond issues in Minnesota, while the second and third pages show all the Minnesota Housing State Appropriation Bond issues from 2014 to present.

The comparable transactions show a wide variety of spreads to the interpolated MMD curve for particular maturities, with Minnesota Housing's spreads generally higher than those on the general obligation bond transactions. This is largely due to the different credits, where Minnesota Housing's 2020 Series ABCD bonds are unique in bearing state appropriations risk rather than providing a general obligation credit or simple revenue credit, and also in being related to housing, where investors generally perceive higher risks including compliance with affordability requirements.

Compared to Minnesota Housing's prior State Appropriation Bond financings, the spreads to MMD on 2020 Series ABCD were significantly better. For example, at the 20 year maturity, 2020 Series ABCD priced at +0.43% to MMD whereas 2019 Series ABCD priced at +0.67%. This is likely due to a combination of a lower yield environment overall (e.g. the BBI and RBI indices are more than 1% lower than in 2019) and greater marketability of the 2020 bonds due to the larger size of the overall transaction and individual maturities.

PRICING COMPARABLES: Recent MN G.O. Issues

Pricing Date		8/19/20			8/11/20			8/11/20			8/11/20			8/10/20			7/20/20		
Amount		$108,280,000			$330,360,000			$152,020,000			$163,380,000			$27,205,000			$12,735,000		
Issuer		Minnesota HFA			State of Minnesota			State of Minnesota			State of Minnesota			ISD 271 (Bloomington PS)			City of Lakeville, MN		
Series		2020 Series ABCD (Housing Infra)			G.O. Various Purp., 2020A			G.O. Trunk Highway, 2020B			G.O. Trunk Hwy Ref, 2020E			G.O. Fac. Maint. 2020A			G.O. 2020A		
Program		Appropriations / Negotiated			GO / Competitive			GO / Competitive			GO / Competitive			GO / Competitive			GO / Competitive		
Rating(s)		Aa2 / AA+ / -			Aa1 / AAA / AAA			Aa1 / AAA / AAA			Aa1 / AAA / AAA			- / AAA / -			Aa1 / - / -		
Year	Maturity ('20 pricings)	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD
0	2020																		
1	2021	C:2.00	0.21	+8	5.000	0.08	-	2.000	0.12	+4	2.000	0.10	+2				5.000	0.15	+2
2	2022	D:2.00/C:3.00	0.24	+10	5.000	0.09	-	2.000	0.13	+4	2.000	0.11	+2				5.000	0.19	+4
3	2023	D:3.00/C:4.00	0.28	+13	5.000	0.10	-	2.000	0.15	+5	2.000	0.13	+3				5.000	0.22	+5
4	2024	C:3.00/A,D:4.00	0.35	+17	5.000	0.13	-	2.000	0.20	+7	3.000	0.15	+2	2.000	0.20	+9	5.000	0.25	+5
5	2025	A,D:4.00	0.42	+19	5.000	0.16	-	2.000	0.26	+10	3.000	0.16	-	2.000	0.20	+6	5.000	0.35	+7
6	2026	A,D:4.00	0.55	+22	5.000	0.26	-	2.500	0.40	+14	3.000	0.30	+4	2.000	0.30	+9	5.000	0.44	+7
7	2027	A,D:4.00	0.69	+26	5.000	0.36	-	4.000	0.36	-	2.000	0.50	+14	2.000	0.45	+11	5.000	0.57	+7
8	2028	A,D:4.00	0.80	+27	5.000	0.44	-	4.000	0.44	-	2.000	0.60	+16	2.000	0.55	+13	5.000	0.64	+7
9	2029	A,D:4.00	0.91	+29	5.000	0.51	-	4.000	0.52	+1	2.000	0.70	+19	2.000	0.65	+15	5.000	0.72	+7
10	2030	A,D:4.00	1.01	+31	5.000	0.58	-	4.000	0.60	+2	3.000	0.80	+22	2.000	0.80	+24	5.000	0.78	+7
11	2031	A,B,D:4.00	1.11*	+33	5.000	0.65	+1	4.000	0.70	+6				1.000	1.00	+39	3.000	1.03	+27
12	2032	B,D:4.00	1.20*	+34	5.000	0.72	+1	2.000	1.16	+45				1.000	1.10	+42			
13	2033	B,D:4.00	1.30*	+36	5.000	0.81	+2	2.000	1.29	+50				1.125	1.20	+44			
14	2034	B,D:4.00	1.37*	+38	5.000	0.86	+2	2.000	1.39	+55									
15	2035	B,D:4.00	1.43*	+39	5.000	0.90	+2	1.500	1.50	+62									
16	2036	B,D:4.00	1.49*	+41	5.000	0.94	+2	1.500	1.59	+67									
17	2037	B,D:4.00	1.55*	+43	5.000	0.98	+2	1.625	1.67	+71									
18	2038	B,D:4.00	1.59*	+43	5.000	1.03	+3	1.750	1.77	+77									
19	2039	B,D:4.00	1.63*	+43	5.000	1.07	+3	1.750	1.82	+78									
20	2040	B,D:4.00	1.67*	+43	5.000	1.11	+3	1.875	1.87	+79									
21	2041	B,D:4.00	1.70*	+43															
22	2042	D:4.00	1.73*	+43															
23	2043	D:4.00	1.76*	+43															
Notes		Par A: $18,570,000; B: $38,900,000; C: $7,055,000; D: $43,755,000; * Yields to first optional call																	
Maturity Dates		8/1			8/1			8/1			8/1			2/1			2/1		
Call Provisions		8/1/30 at par			8/1/30 at par			8/1/30 at par			None			2/1/28 at par			2/1/29 at par		
Mkt Index		BBI / RBI 2.05% / 2.47%			BBI / RBI 2.02% / 2.44%			BBI / RBI 2.02% / 2.44%			BBI / RBI 2.02% / 2.44%			BBI / RBI 2.02% / 2.44%			BBI / RBI 2.12% / 2.54%		
Sr Manager		RBC Capital Markets			RBC Capital Markets			Wells Fargo			Morgan Stanley			Baird			Piper Sandlier		

PRICING COMPARABLES: MHFA HIB Only

Pricing Date		8/19/20			8/22/19			9/11/18			10/12/17		
Amount		$108,280,000			$26,775,000			$25,295,000			$12,690,000		
Issuer		Minnesota HFA			Minnesota HFA			Minnesota HFA			Minnesota HFA		
Series		2020 Series ABCD (Housing Infra)			2019 Series ABCD (Housing Infra)			2018 Series ABCD (Housing Infra)			2017 Series A (Housing Infra)		
Program		Appropriations / Negotiated			Appropriations / Negotiated			Appropriations / Negotiated			Appropriations / Negotiated		
Rating(s)		Aa2 / AA+ / -			Aa2 / AA+ / -			Aa2 / AA+ / -			Aa2 / AA / -		
Year	Maturity ('20 pricings)	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD
0	2020												
1	2021	C:2.00	0.21	+8	B:2.00/D:3.00	1.07	+7	C:5.00	1.89	+19	2.000	1.03	+10
2	2022	D:2.00/C:3.00	0.24	+10	B:2.00/D:3.00	1.10	+12	C:5.00	2.01	+21	3.000	1.14	+15
3	2023	D:3.00/C:4.00	0.28	+13	A,B:2.00/D:3.00	1.12	+13	C:5.00	2.13	+23	4.000	1.25	+17
4	2024	C:3.00/A,D:4.00	0.35	+17	A:1.75/D:3.00	1.15	+16	C:5.00	2.25	+26	4.000	1.37	+19
5	2025	A,D:4.00	0.42	+19	A,D:3.00	1.20	+19	A,B,C:2.375	2.375	+29	4.000	1.55	+22
6	2026	A,D:4.00	0.55	+22	A,D:3.00	1.26	+23	C:5.00	2.50	+30	5.000	1.72	+26
7	2027	A,D:4.00	0.69	+26	A:2.50/D:3.00	1.31	+24	C:5.00	2.62	+33	5.000	1.88	+29
8	2028	A,D:4.00	0.80	+27	A,D:3.00	1.39	+26	C:5.00	2.76	+38	5.000	2.05	+32
9	2029	A,D:4.00	0.91	+29	A:2.00/D:3.00	1.51	+32	C:5.00	2.88	+42	5.000	2.22	+35
10	2030	A,D:4.00	1.01	+31	A:5.00/D:3.00	1.64	+38	A,B,C:3.00	3.00	+48	5.000	2.34	+37
11	2031	A,B,D:4.00	1.11*	+33	A,C,D:4.00	1.80*	+48	C:5.00	3.04*	+46	4.000	2.53*	+47
12	2032	B,D:4.00	1.20*	+34	A,C:4.00	1.90*	+53	C,D:5.00	3.10*	+46	4.000	2.68*	+54
13	2033	B,D:4.00	1.30*	+36	A,C:4.00	2.00*	+58	D:5.00	3.15*	+46	4.000	2.85*	+64
14	2034	B,D:4.00	1.37*	+38	A,C:4.00	2.10*	+63	D:5.00	3.19*	+46	3.000	3.05	+77
15	2035	B,D:4.00	1.43*	+39	A,C:4.00	2.19*	+67	B:3.50/D:5.00	3.54/3.25*	+76/+47	3.000	3.09	+74
16	2036	B,D:4.00	1.49*	+41	A,C:4.00	2.24*	+68	D:4.00	3.58*	+75	4.000	3.05*	+64
17	2037	B,D:4.00	1.55*	+43	A,C:4.00	2.29*	+69	D:4.00	3.63*	+75	4.000	3.11*	+65
18	2038	B,D:4.00	1.59*	+43	A,C:4.00	2.33*	+69	D:4.00	3.68*	+75	4.000	3.15*	+64
19	2039	B,D:4.00	1.63*	+43	A:4.00	2.35*	+67	A:3.75/D:4.00	3.83/3.74*	+85/+76	3.250	3.32	+77
20	2040	B,D:4.00	1.67*	+43	A,C:4.00	2.39*	+67	B:3.875/D:4.00	3.875/3.78*	+87/+77	3.250	3.34	+75
21	2041	B,D:4.00	1.70*	+43	A:4.00	2.43*	+67	D:4.00	3.80*	+77			
22	2042	D:4.00	1.73*	+43	A,C:4.00	2.46*	+67	D:4.00	3.82*	+77			
23	2043	D:4.00	1.76*	+43									
Notes		Par A: $18,570,000; B: $38,900,000; C: $7,055,000; D: $43,755,000; * Yields to first optional call			Par A: $14,535,000; B: $1,280,000; C: $6,915,000; D: $4,045,000; * Yields to first optional call			Par A: $1,130,000; B: $4,980,000; C: $8,810,000; D: $10,375,000; * Yields to first optional call			* Yields to first optional call		
Maturity Dates		8/1			8/1			8/1			8/1		
Call Provisions		8/1/30 at par			8/1/29 at par			8/1/28 at par			8/1/27 at par		
Mkt Index		BBI / RBI 2.05% / 2.47%			BBI / RBI 3.07% / 3.55%			BBI / RBI 3.98% / 4.49%			BBI / RBI 3.61% / 3.82%		
Sr Manager		RBC Capital Markets			RBC Capital Markets			RBC Capital Markets			RBC Capital Markets		

PRICING COMPARABLES: MHFA HIB Only

Pricing Date		8/16/16			9/1/15			2/18/15			2/6/14		
Amount		$16,905,000			$31,095,000			$37,570,000			$14,540,000		
Issuer		Minnesota HFA			Minnesota HFA			Minnesota HFA			Minnesota HFA		
Series		2016 Series ABC (Housing Infr)			2015 Series C (Housing Infr)			2015 Series A,B (Housing Infr)			2014 Series A,B (Housing Infr)		
Program		Appropriations / Negotiated			Appropriations / Negotiated			Appropriations / Negotiated			Appropriations / Negotiated		
Rating(s)		Aa2 / AA / -			Aa2 / AA / -			Aa2 / AA / -			Aa2 / AA / -		
Year	Maturity ('20 pricings)	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to iMMD	Coupon	Yield	Spread to MMD
0	2020							2.000	0.13				
1	2021	3.000 / 2.000	0.61	+15	2.000	0.34	+12	3.000	0.34	+5	3.0000	0.33	+10
2	2022	3.000 / 2.000	0.72	+20	3.000	0.72	+13	4.000	0.67	+11	3.0000	0.51	+14
3	2023	3.000 / 2.000	0.85	+25	4.000	1.04	+18	4.000	1.01	+17	4.0000	0.82	+21
4	2024	3.000 / 2.000	1.02	+30	4.000	1.34	+21	4.000	1.26	+22	4.0000	1.22	+25
5	2025	3.000 / 2.000	1.20	+35	5.000	1.58	+25	4.000	1.53	+27	4.0000	1.56	+30
6	2026	3.000 / 2.000	1.42	+40	5.000	1.88	+27	5.000	1.74	+29	2.0000	2.02	+35
7	2027	3.000 / 2.000	1.58	+44	5.000	2.12	+32	5.000	2.00	+31	2.3750	2.39	+41
8	2028	3.000 / 2.000	1.70 / 1.72	+47 / +49	5.000	2.28	+33	2.150	2.18	+33	4.0000	2.74	+47
9	2029	3.000 / 2.000	1.81 / 1.86	+49 / +54	5.000	2.42	+35	2.300	2.34	+34	2.9000	2.95	+50
10	2030	3.000 / 2.000	1.95* / 2.00	+54 / +59	5.000	2.54*	+36	5.000	2.50*	+38	3.1250	3.13	+54
11	2031	4.000 / 2.000	2.05* / 2.15	+54 / +64	4.000	2.93*	+63	5.000	2.64*	+41	3.2500	3.25	+53
12	2032	4.000 / 2.250	2.20* / 2.33	+61 / +74	4.000	3.07*	+68	5.000	2.75*	+42	5.0000	3.45*	+61
13	2033	4.000 / 2.375	2.32* / 2.45	+66 / +79	4.000	3.16*	+67	3.000	3.15	+72	3.5000	3.65	+69
14	2034	4.000 / 2.500	2.40* / 2.56	+68 / +84	4.000	3.25*	+68	5.000	2.88*	+41	3.6250	3.75	+70
15	2035	4.000 / 2.625	2.49* / 2.67	+71 / +89	3.250	3.48	+83	5.000	2.93*	+41	3.7500	3.84	+70
16	2036	4.000 / 2.750	2.54* / 2.77	+71 / +94	3.375	3.56	+83	5.000	2.97*	+40	3.7500	3.93	+70
17	2037	4.000 / 2.750	2.59* / 2.875	+71 / +100	5.000	3.19*	+41	5.000	3.02*	+41	4.0000	4.00	+68
18	2038	4.000	2.64*	+71	5.000	3.24*	+41	5.000	3.06*	+41	4.0000	4.05	+65
19	2039	4.000	2.69*	+71	5.000	3.28*	+41	5.000	3.09*	+40	4.0000	4.10	+62
20	2040	3.000	3.01	+99	5.000	3.31*	+41	5.000	3.13*	+40	4.7500	4.08*	+55
21	2041	3.000	3.03	+99	5.000	3.35*	+41				5.0000	4.08*	+50
22	2042	3.000	3.04	+98	5.000	3.38*	+41						
23	2043												
Notes		* Yields to first optional call; "/" indicates Series A/C with different coupons			* Yields to first optional call			* Yields to first optional call			* Yields to first optional call		
Maturity Dates		8/1			8/1			8/1			8/1		
Call Provisions		8/1/25 at par			8/1/24 at par			8/1/24 at par			8/1/23 at par		
Mkt Index		BBI / RBI 2.85% / 3.06%			BBI / RBI 3.79% / 4.20%			BBI / RBI 3.60% / 4.23%			BBI / RBI 4.46% / 5.32%		
Sr Manager		RBC Capital Markets			RBC Capital Markets			RBC Capital Markets			RBC Capital Markets		