



Rehabilitation Loan Program Procedural Manual

September 27, 2013

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Introduction

Mission Statement

The Minnesota Housing Finance Agency (“Minnesota Housing”) finances and advances affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities.

Background

Minnesota Housing was created in 1971 by the Minnesota Legislature.

Minnesota Housing created the Rehabilitation Loan Program (the “Program”) to compliment loan programs available in the private sector to fill the financial gap that existed 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.

Rehabilitation 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 the safety¹, habitability² livability, or energy efficiency³ of the home. Existing residential housing is inspected using Minnesota Housing’s Single Family Rehabilitation Standard (“Rehabilitation Standard”). Deficiencies cited in any property inspection under the Rehabilitation Standard must be prioritized and cured as funding allows. Homeowners requiring assistance of an emergency nature will be referred to the Minnesota Housing Emergency and Accessibility Loan Program.

¹ Rehabilitation improvements which address conditions in the home that can cause danger or risk of injury.

² Rehabilitation improvements which address basic needs and are of average/median grade or quality.

³ Rehabilitation improvements which reduce overall energy use while providing the same or higher level of performance, comfort and convenience.

Chapter 1 – Partner Responsibilities/Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement (hereinafter referred to as the “Agreement”) for the Program executed between Lenders and Minnesota Housing. It is incorporated into such Agreement by reference and is a part thereof as fully as if set forth in such 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 herein;
- Impose other and additional requirements; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

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

1.02 Evidence of Misconduct Referred to Attorney General

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of the Program to the Minnesota Attorney General’s Office for appropriate legal action.
- If, after a loan is made, a Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Lender 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 Lender and/or the Borrower. This includes loan funds, together with all applicable fees or commissions received by the Lender in connection with the loan and all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery thereof.

1.03 Compliance with Privacy Act Statutes

The Minnesota Government Data Practices Act:

- Requires the Lender to supply Borrowers with the Tennessee Warning and the Privacy Act Notice when requesting private data⁴; and
- Governs when the disclosure of the Borrower’s Social Security Number is required.

⁴ 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.

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.

1.04 Unauthorized Compensation

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

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

In order to reduce the total rehabilitation cost associated with an eligible property, a Lender may receive discounts⁵ from the seller, builder, remodeler, contractor, or supplier.

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by Minnesota Housing. A loan file may be requested to be made available to Minnesota Housing at the Lender’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.

Audited loans are reviewed for:

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

1.06 Termination of Lender Participation

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

- This Procedural Manual;
- The 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

⁵ Discounts must be considered normal and do not constitute a kickback, commission, rebate or compensation to the Lender for services or products rendered.

- Other applicable state and federal laws, rules and regulations.

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

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

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

1.07 Representations and Warranties

The Lender agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following (and any applicable rules, regulations or laws 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);
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- 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; and
- Real Estate Settlement Procedures Act of 1974.

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

- Lender will comply with the Minnesota Housing Lead Based Paint Guidebook;
- Lender is the sole owner and holder of the loan with the right to assign it to Minnesota Housing;
- Lender has assigned the loan free and clear of all encumbrances;
- Lender has complied and will continue to comply with all terms and conditions in the Agreement and this Procedural Manual for each loan processed unless prior written approval is obtained from Minnesota Housing;
- 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;
- Lender maintains capital and trained personnel adequate to render the services required as a part of the Lender's participation in the Program;
- Lender 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;
- Lender tracks all applicants to document compliance with federal Fair Housing and documents reasons for loan denial for future Program evaluation;
- On the date each loan was closed:
 - Lender has neither received nor solicited any fee or remuneration not approved by this Procedural Manual;
 - After reasonable inspection, the Lender has no knowledge that any improvement included in the loan is in violation of applicable zoning ordinances, building ordinances, laws or regulations; and
 - The Lender has closed the loan in accordance with the instructions provided in this Procedural Manual.

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

1.08 Lender Compensation

Minnesota Housing will provide funds to defray a portion of the expense incurred by providing Lender services, including but not limited to staff salaries, office expenses, travel expenses, counseling and technical assistance. Lender is compensated for each loan purchased by Minnesota Housing at a rate of 14% of the loan amount or \$3,000 per loan, whichever is less.

1.09 Selection of Contractors

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

1.10 Borrower Selection

Lender must establish a borrower selection process.

Chapter 2 - Borrower Eligibility Requirements

2.01 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.

2.02 Borrower Age

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

2.03 Co-Signers

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

2.04 Ownership Interest

The Borrower(s) must individually, or in the aggregate, possess at least a one-third ownership interest in the residence to be improved. Except that if a mobile/manufactured home is to be rehabilitated and it is 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 outlined in Section 4.06 of this Procedural Manual.

Eligible forms of ownership interest include the following:

- A fee simple estate;
- A leasehold estate;
- A community land trust;
- A mobile/manufactured home taxed as real property; or
- A mobile/manufactured home taxed as personal property and located in a mobile home park.

Title may be held as follows:

- Individually;
- Joint Tenants;
- Tenants in common;
- Tenancy by the entirety;

- Vendee interest in a recorded contract-for-deed⁶; or
- A recorded life estate, excluding remaindermen⁷

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

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

2.05 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 the start of rehabilitation. Further, the Borrower must continue to own and regularly reside in the property as his/her Principal Residence during the term of the loan.

2.06 Rehabilitation Loan Program Application

- All Borrowers must apply for the Program through approved Lenders using the Minnesota Housing Borrower Application; and
- As a prerequisite to application, Borrowers must have applied to and documented their eligibility for the Weatherization Program through the Minnesota Department of Commerce.

2.07 Prior Minnesota Housing Assistance

A Borrower who has previously received financing through the Program is ineligible to receive further financing through this program for five years (from the loan closing date) thereafter with exceptions for emergency situations.

2.08 Rehabilitation Loan Program Eligibility Income

Gross annual household income, is the gross annual projected household income of all residents age 18 and over of the Borrower's household, from whatever source derived (with the exception of incidental income from after school employment of persons under 18 year of age) and before taxes or withholdings – less deductible medical expenses allowed. (See Income Eligibility Calculation Worksheet.) The Minnesota Housing maximum gross household income may not exceed the amounts listed on Minnesota Housing's website.

Gross annual projected household income includes:

- Salary, commissions, bonuses, tips and earnings from part-time employment;
- Interest, dividends and gains on sale of securities;
- Annuities, pensions and royalties;

⁶ Borrower must get prior approval from contract for deed vendor. Vendor will be required to sign the Mortgage as an Accommodation Party.

⁷ Remainderman will be required to sign the Mortgage as an Accommodation Party.

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- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation and sick pay;
- Net rental income and 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 after deducting principal, interest, taxes and insurance paid on outstanding debt against the property. (Deductions may not 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.

Gross annual household income must be verified within 9 months of the loan commitment obtained via the Loan Commitment System

2.09 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.

2.10 Credit Requirements⁸

Borrower must be:

- Current on mortgage loan payments and up to date on real estate taxes. Verification must be documented within 3 months of the loan commitment via the Loan Commitment System using one of the following:
 - A Verification of Mortgage from loan servicer;
 - Mortgage statement demonstrating the loan servicer's name and address, the previous payment being made, the next payment due amount, any past due amounts, and any unpaid or late fees; or
 - Another documentation method pre-approved by Minnesota Housing.
- Unable to obtain financing under equivalent terms elsewhere.

2.11 Separated Spouses

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

Examples of separated spouse documentation include:

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

2.12 Loans to Employees and Affiliated Parties

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 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. The Borrower must meet all eligibility criteria for the Program.

⁸ Credit Reports are not required and should not be ordered by the Lender.

Chapter 3 - Property Eligibility Requirements

3.01 Eligible Properties

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

- A single family detached home;
- A duplex;⁹
- An eligible one-unit dwelling in an eligible planned unit development (PUD);
- A condominium unit;¹⁰
- A townhome¹¹; and
- Certain mobile/manufactured homes that meet the requirements outlined in Chapter 2, Section 2.04.

3.02 Ineligible Properties

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

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

3.03 Property Inspections

Lender must conduct inspections of the property as follows:

- The first inspection must be made using the Rehabilitation Standard in order to determine the property's deficiencies without regard to lead-based paint hazards. The results of the inspection are used to prepare the initial scope of work.
- Lender must arrange for a certified risk assessor to perform a lead-based paint risk assessment for all properties constructed prior to 1978 in order to determine the presence of lead-based paint hazards. Lead-based paint hazard reduction should then be added to the scope of work.
- Additional inspections should demonstrate that construction has been completed according to the scope of work, that the quality of the work is satisfactory and that, if applicable, the property has passed the lead-based paint clearance test. Lender may conduct additional inspections as work is completed.

⁹ The Borrower must occupy one unit of a duplex property. Any improvements that benefit only the rental unit of a duplex must have prior written approval by Minnesota Housing as part of the commitment process.

¹⁰ If the property is a condominium or townhome, only the portion of the real estate owned by the Borrower is eligible for financing under this Program. The common areas owned by the association are not eligible.

¹¹ If the property is a condominium or townhome, only the portion of the real estate owned by the Borrower is eligible for financing under this Program. The common areas owned by the association are not eligible.

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

3.04 Local Ordinances and Plans

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

Chapter 4 – Loan/Rehabilitation Eligibility

4.01 Loan Eligibility

Minnesota Housing purchases closed loans from Lenders if the loan satisfies all the requirements of this Procedural Manual.

4.02 Interest Rate/Amortization Requirements

Generally, loans under this 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.

4.03 Program Loan Amounts

- The minimum loan amount is \$1,000.
- Overall loan amount may not exceed \$27,000 and may include the costs of required radon tests, pre-rehabilitation energy audits, post-rehabilitation blower-door tests, lead-based paint inspection, lead-based paint risk assessment and lead-based paint clearance reports.
- Recording fees, mortgage registration tax and title search costs may be collected from the Borrower and may be included in the loan amount as long as Program loan amount maximums are not exceeded.

4.04 Mortgage Term

Prior to the expiration of the applicable periods indicated below, all loans are due on sale, transfer of title, or if the property ceases to be the Borrower's Principal Residence. See Section 7.03 of this Procedural Manual.

- The loan term for properties taxed as real estate is 15 years.
- The loan term for Manufactured Homes:
 - taxed as real property is 15 years; and
 - taxed as personal property and located within a mobile home park is 10 years.

4.05 Security for the Loan

- All loans for properties taxed as real estate will be secured with a mortgage which must be recorded as soon as possible after the date of closing. Lender may not wait to record the mortgage until after the rehabilitation is completed to accommodate changes in the loan amount.
- Loans made in conjunction with a Manufactured Home, taxed as personal property and located within a mobile home park will be secured with a lien against the title to the Manufactured Home.

- In the event there are changes in the loan amount, the Lender must follow the Change Order requirements in Section 4.09 and the Post Rehabilitation Closing requirements in Section 6.02 of this Procedural Manual.

4.06 Title Evidence Requirements

Lender is required to verify:

- The legal description of the subject property;
- The Borrower's ownership interest, by submitting a copy of the deed and conducting a title investigation:
 - through documented contact with the County Recorder's Office/Registrar of Titles;
or
 - via an Owners and Encumbrances report; and
- Existing liens, if any, on the property.

4.07 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 clause language, please contact Minnesota Housing.

4.08 Rehabilitation Improvement Requirements

- Each rehabilitation improvement must be a permanent general improvement made in compliance with all applicable state, county and municipal health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Prior to rehabilitation, properties must be inspected to the Rehabilitation Standard to determine any deficiencies.
- If the property was constructed prior to 1978, the property must be rehabilitated per the Minnesota Housing Lead Based Paint Guidebook.
- If the property was constructed prior to 1978 and rehabilitation improvements will disturb painted surfaces above De Minimis Levels, contractors will be required to follow Lead-Safe Work Practices.
- On a case by case basis, and at Minnesota Housing's sole discretion, relocation expenses due to lead-based paint hazard reduction activity may be permitted.

- All rehabilitation improvements must be outlined in a written scope of work and must correlate to the deficiencies identified during the Rehabilitation Standard inspection and include all lead-based paint hazard reduction activities required by the lead-based paint risk assessment.
- At least three bids from Minnesota-licensed building contractors must be solicited based on the written scope of work. In general, the lowest, reasonable bid should be selected. If the lowest, reasonable bid is not selected, the Lender and Borrower must provide written justification and such bid must be approved at the sole discretion of Minnesota Housing.
- All rehabilitation improvements must be completed by contractors licensed in the State of Minnesota.
- A written construction contract must be executed between the contractor and the Borrower.
- All rehabilitation improvements must comply with enacted-upon Minnesota Green Communities for Rehabilitation requirements as modified by the Minnesota Housing Overlay. Use of the Green Communities Scope of Work Addendum is required.
- Rehabilitation improvements to Manufactured Housing must comply with Minnesota State Building Code 1350.3800, which addresses the distinction between a Construction Alteration and a Repair and the different licensing requirements attendant to each improvement.

4.09 Change Orders

- Changes in the scope of work are not allowed unless unanticipated deficiencies are found during the rehabilitation which will cause further damage to the home if not addressed.
- Allowable examples include, but are not limited to, rotted or deteriorated roof decking, hazardous wiring behind walls, floor decking, wall sheathing.
- Change in the scope of work or change in contractor must be documented in writing on the Change Order form provided by Minnesota Housing and executed between the contractor and the Borrower.
- Changes in the scope of work must be approved in advance by Minnesota Housing.

4.10 Sworn Construction Statement and Lien Waivers

General contractors are required to execute a Sworn Construction Statement.

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

4.11 Homeowner Labor

- Homeowner labor is permitted provided Lender is satisfied the Borrower is capable of and willing to perform the labor.
- Borrower must execute a Work Program Agreement.
- The materials list must include the actual cost of the materials required to complete the necessary improvements.
- The Lender must perform at least one interim inspection in addition to the initial and final inspections otherwise required.
- The Borrower may not pay or be reimbursed for the cost of labor performed by the Borrower or other household residents. Disbursements of funds by the Borrower and to the Borrower are not permitted under this Program.

4.12 Eligible Rehabilitation Improvements

Eligible rehabilitation improvements must be directly related to the habitability or safety of the home, be of average or medium grade or quality, and include:

- Accessibility-related improvements;
- Energy efficiency-related improvements;
- Lead hazard mitigation;
- Radon mitigation;
- Smoke detectors/alarms;
- CO alarms;
- Structural improvements;
- Electrical improvements;
- Plumbing improvements;
- Drainage, grading, and gutters;
- Roofing, soffits, and fascia,
- Siding;
- Windows and doors;
- Insulation;
- Furnaces and other heating systems;
- Wall and ceiling repair; and
- Flooring.

The following rehabilitation improvements are eligible only with approval by Minnesota Housing, and only under the circumstances described below:

- Replacement of kitchen cabinets or bathroom vanities when: an accessibility need exists; lead hazards cannot be addressed any other way; the repair of existing cabinets or vanities is not feasible or cost reasonable; or, existing kitchen cabinets do not allow for adequate food storage.
- Replacement of kitchen counter tops when: an accessibility need exists, the existing countertop presents a clear health or safety hazard; or there is not adequate space for food preparation.
- Replacement of decorative trim when lead hazard mitigation is required.
- Work on existing garages when: a medical or accessibility need exists; lead hazard mitigation is required; or, required by the local building code and evidence of the code violation is presented. Reconstruction of existing garages is permitted on a case-by-case basis.
- Demolition of outbuildings when lead hazard mitigation is required; or, required by the local building code and evidence of the code violation is presented.
- Construction or reconstruction of sidewalks and driveways when existing conditions present a clear and imminent safety hazard. Repair is limited to the portion of sidewalks and driveways on the Borrower's property.
- New central air conditioner installation when a medical or accessibility need exists or when an elderly household member is present.
- Walk-in bathtubs when a medical or accessibility need exists.

Lender must provide sufficient documentation for any improvement requiring approval by Minnesota Housing.

A Home Addition is eligible only with advanced approval by Minnesota Housing under the following documented circumstances:

- An accessibility-related addition when a medical/physical need exists.
- A bathroom addition when the home has an inadequate bathroom.
- A kitchen addition when the home's existing kitchen facilities are a health or safety hazard.
- A bedroom addition when over-crowding exists. Over-crowding exists when there is an average of more than one person per room (excluding the bathroom and kitchen).

When seeking approval for an addition, Lender must demonstrate that alternative remedies have been evaluated but are not feasible.

4.13 Ineligible Rehabilitation Improvements

Ineligible rehabilitation improvements include but are not limited to:

- Construction of garages (exceptions can be made when a medical or an accessibility need exists);
- Installation of decorative trim;
- Hard-wired microwave ovens;
- “Luxury” improvements, which are improvements of a type exceeding that customarily used in the locality for properties of the same type as the property to be rehabilitated (swimming pool, outdoor hot tub, etc.);
- Improvements that do not become a part of the real property, including but not limited to, appliances such as freestanding refrigerators and stoves;
- Public improvement assessments¹²;
- Any improvements already in place.

Loan proceeds may not be used to pay off any existing debt.

4.14 Rehabilitation Standard and Code Compliance

A Minnesota licensed contractor must complete all rehabilitation, except a homeowner need not be licensed when homeowner labor is involved.

After completion of rehabilitation, eligible properties must:

- Be free of deficiencies which will cause further damage to the home. The Rehabilitation Standard must be used as the basis for all rehabilitation work undertaken.
- Meet the enacted-upon Minnesota Green Communities Criteria for Rehabilitation as modified by the Minnesota Housing Single Family Overlay
- Have completed rehabilitation work that is in compliance with all applicable state, county and municipal health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Meet the lead-based paint requirements outlined in the Minnesota Housing Lead Based Paint Guidebook for all properties constructed before 1978.

4.15 Non-Complying Loans

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

- Adjust the purchase price of the non-complying loan;
- If not already purchased, refuse to purchase the loan;

¹² Loan proceeds may not be used in whole or in part to pay public improvement assessments.

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- If already purchased, require the Lender to repurchase the loan for the purchase price;
- Terminate, suspend, or otherwise limit the Lender’s Agreement with Minnesota Housing; or
- Preclude the Lender from future participation in Minnesota Housing programs.

4.16 Repurchase of Loans

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

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

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

Chapter 5 – 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 as listed:

- A maximum dollar amount of money a Lender may request; or
- A maximum number of Individual Disbursement Requests from any one Lender.

Lender may request funds on a first-come, first-served basis via regional pools for each of the seven Regional Housing Advisory Group (RHAG) regions until such time as regional pools are collapsed into a statewide pool. Minnesota Housing may, at its sole discretion, and without prior notice, institute a maximum on the number of loans a lender may have in process at any one time. In that event, when a loan in process is either approved for purchase by Minnesota Housing, or cancelled by the Lender, another loan may be committed. Fund balances for available pools are listed on Minnesota Housing's website.

5.01 Requesting a Commitment

- In order to obtain a loan commitment in the Loan Commitment System, the Lender must submit the Rehabilitation Loan Commitment Worksheet as well as all the required documentation listed on that form. Once the documentation has been reviewed and approved, Minnesota Housing will issue a Commitment and apprise the lender of the Minnesota Housing loan number.
- Commitments are valid for 120 days. All commitments will be automatically cancelled at day 121.
- 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 is valid.

5.02 Modifying a Commitment

- In order to qualify, any change to a commitment must meet eligibility requirements and be submitted via the Loan Commitment System.
- Any qualifying commitment change will not alter the commitment period originally established.
- Changes to commitments involving the Borrower and/or the property address are not permitted.
- An increase in the loan amount will be allowed only if funds are available to accommodate the change.

5.03 Canceling a Commitment

Minnesota Housing requires the Lender to cancel any commitment of funds that will not be used for the specified loan.

5.04 Transfer of a Commitment

Lender may not transfer commitments to another Lender without prior written approval by Minnesota Housing. Minnesota Housing may transfer a commitment request under the following conditions:

- Lender requests a transfer of commitment in writing and documents the reason for the request;
- The new Lender must be an approved participant in the Program; and
- The original Lender must transfer and/or assign case documents to the new Lender.

5.05 Duplicate Funding Requests

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

5.06 Minnesota Housing Disbursement of Funds

Minnesota Housing will purchase loans that, by the daily cutoff time, have been Purchase Approved in the Loan Commitment System. One hundred percent of the loan amount plus the lender fee will be disbursed two business days after the loan has been purchased by Minnesota Housing.

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

5.07 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 the Lender for any funds to be returned or disburse the necessary funds to the Lender.

Chapter 6 – Documentation and Reporting Requirements

6.01 Loan Processing and Closing

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

- Loans must be closed and required documents must be reviewed for compliance and approved by Minnesota Housing prior to requesting Minnesota Housing loan approval via the Loan Commitment System.
- All loan documents must be on Minnesota Housing forms and may not be altered in any way.
- All loan documents must be complete, accurate and reviewed by the Lender at the various and appropriate stages of the loan.
- All mortgage assignments must run directly from the 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 taxed as personal property and located within a mobile 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 loan amount that was originally committed under this Program changes once rehabilitation is complete, the Lender must modify the Note and recorded Mortgage to reflect the correct, final loan amount as follows:

- Properties Taxed as Real Property:
 - Note and Mortgage – The Modification of Note and Mortgage Agreement must be drawn in Minnesota Housing’s name, be executed by the Borrower(s) and Minnesota Housing, reflect the corrected loan amount and be recorded.
- Manufactured Homes Taxed as Personal Property:
 - Note and Security Agreement – The Modification of Note and Mobile Home Security Agreement must be drawn in Minnesota Housing’s name, be executed by the Borrower(s) and Minnesota Housing and reflect the corrected loan amount.

6.03 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the Commitment Request Form and the Loan Transmittal Form that detail specific documentation/delivery requirements.

Lender must fully execute and deliver documents within designated timeframes. In addition, 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 Lender being required to repurchase the loan, or any such remedy as identified in this Procedural Manual or allowed by law. Minnesota Housing may also, at its discretion, extend the timeframes.

6.04 Reporting Requirements

Lenders participating in the Program are required to track all applicants and maintain sufficient documentation to show compliance with federal Fair Housing laws. The full property address as well as the following data must be gathered for each transaction on the Applicant Tracking Form:

- Application date;
- Applicant’s full name;
- Applicant’s race/ethnicity;
- Single head of household information;
- Application status; and
- Reason the loan was declined, if applicable.

The results of the applicant tracking must be submitted to Minnesota Housing on a semi-annual basis by March 31st and September 30th of each year. Lender failure to submit applicant tracking reports may prevent future access to Program funding until such reports are satisfactorily submitted to Minnesota Housing.

6.05 Records Retention

Lender must retain any and all documents, (including compliance with Program guidelines) for a period of at least six (6) years from rehabilitation completion, including, but not limited to the following:

- Records for all rehabilitation improvements including scope of work, bids, lien waivers, change orders, fees and completion certificates;
- Evidence that rehabilitation work meets all applicable codes and the Rehabilitation Standard;
- Records that demonstrate compliance with lead-based paint requirements;
- Copy of the Borrower Application;
- Written verification of all major sources of income; and
- Written verification of current property ownership.

Chapter 7 – Servicing

7.01 Servicing

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

7.02 Delivery of Loans to Servicer

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

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 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.

Appendix A: Definitions

TERM	DEFINITION
Accommodation Parties	An owner of the property who is not a Borrower on the note, such as a non-purchasing spouse.
Construction Alteration (Manufactured Housing)	Pursuant to the Minnesota State Building Code 1350.0100 and 1350.3800 "... replacement, addition, modification or removal of any equipment or installation which may affect the construction, plumbing, heating, cooling, fuel-burning system, electrical system or the functioning of any of these in manufactured homes subject to the code".
De Minimis Levels	As defined by HUD: 20 square feet on exterior surfaces; 2 square feet in any one interior room or space; or 10% of the total surface area on an interior or exterior type of component with a small surface area (e.g., window sills, baseboards or trim).
Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Home Addition	The addition of livable space which is achieved through an actual expansion of square footage to the home, or by finishing off unfinished or partially unfinished square footage in an existing area of the home.
Lead-Safe Work Practices	The standard work practices outlined in approved training courses that meet the Minnesota Housing Lead Based Paint Guidebook. After April 22, 2010, the standard work practices outlined in approved training courses that meet HUD's Lead Safe Housing Rule and EPA's Renovation, Repair and Painting Rule.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Repair (Manufactured	Any improvement other than those

Housing)	outlined in the definition of Construction Alteration including, (according to Minnesota State Building Code 1350.3800) "...repairs with approved components or parts; conversion of listed fuel-burning appliances in accordance with the terms of their listing, adjustment and maintenance of equipment or replacement of equipment in kind."
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Appendix B: Forms List

Applicant Tracking
Bid Summary Form
Borrower Application
Change Order
Completion Certificate
Assignment of Mortgage - Dept. of Commerce - MN Uniform Conveyancing Blanks
Income Eligibility Calculation Worksheet
Final Affidavit of Receipt of Lead Reports
Green Communities Scope of Work Addendum
Homeowner Agreement
Loan Commitment Worksheet
Medical Information Authorization
Mortgage
Note
Note and Mobile Home Security Agreement
Proceed to Work Notice
Rehabilitation Loan Fund Reservation Worksheet
Rehabilitation Loan Program Loan Transmittal
Modification of Note and Mortgage Agreement
Modification of Note and Mobile Home Security Agreement
Single Family Rehabilitation Standard
Work Program Agreement