Minnesota Housing Finance Agency

MEETINGS SCHEDULED FOR SEPTEMBER

Location:

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

THURSDAY, SEPTEMBER 26, 2013

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

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, September 26, 2013.

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

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

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Minnesota Housing Finance Agency

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Equal Opportunity Housing and Equal Opportunity Employment

A G E N D A

Minnesota Housing Finance Agency Board Meeting
Thursday, September 26, 2013
1:00 p.m.

State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of August 29, 2013
5. **Reports**
   A. Chair
   B. Commissioner
   C. Program and Policy Committee Meeting of September 3, 2013
6. **Consent Agenda**
   None
7. **Action Items**
   A. 2014 Affordable Housing Plan
   B. Approval, Changes, Rehabilitation Loan Program Procedural Manual and Emergency and Accessibility Loan Program Procedural Manual
8. **Discussion Items**
   None
9. **Informational Items**
   A. Report of Complaints Received by Agency or Chief Risk Officer
10. **Other Business**
11. **Adjournment**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, August 29, 2013
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair Johnson called to order the special meeting of the Board of the Minnesota Housing Finance Agency at 1:03 p.m.
2. **Roll Call.**
   Members present: Gloria Bostrom, Ken Johnson, John DeCramer, Joe Johnson, Steve Johnson, Stephanie Klinzing, and State Auditor Rebecca Otto.
   Minnesota Housing staff present: Gene Aho, Tal Anderson, Kim Bailey, Paula Beck, Jim Cegla, Mike Haley, Krissi Hoffman, Bill Kapphahn, Kurt Keena, Kasey Kier, Julie LaSota, Eric Mattson, John Patterson, Paula Rindels, Mary Ruch, Megan Ryan, Joel Salzer, Becky Schack, Terry Schwartz, Barb Sporlein, Will Thompson, Mary Tingerthal, Katie Topinka, Elaine Vollbrecht, Don Wyszynski, Xia Yang.
   Others present: Chip Halbach, Minnesota Housing Partnership; Celeste Grant, Office of the State Auditor; Tom O'Hern, Assistant Attorney General.
3. **Agenda Review**
   There were no changes to the agenda.
4. **Approval of the Minutes.**
   A. Regular Meeting of July 25, 2013
   Auditor Otto moved approval of the minutes as written. Joe Johnson seconded the motion. Motion carries 6-0, with Gloria Bostrom abstaining.
   B. Special Meeting of August 6, 2013
   Stephanie Klinzing moved approval of the minutes as written. John DeCramer seconded the motion. Motion carries 7-0.
5. **Reports**
   C. Chair
   Ken Johnson stated he would be absent for the September meeting and that Joe Johnson would chair the meeting.
   D. Commissioner
   Commissioner Tingerthal reported the following:
   - Staff continue to work on the Agency's core business, with business and technology, accounting, and finance staff being very business with the audit, the results of which were presented earlier in the day. This is also a complicated time of year in which Multifamily and Single Family are in the selection process for this year's RFP awards and when last year's projects are starting to come to closing.

- Since the last meeting, the Agency has closed its first transaction utilizing the housing infrastructure bonds that were authorized by the legislature last year. While Commissioner Tingerthal would like to say the process was seamless, staff did learn a lot during the process and will debrief will all parties to investigate ways in which to make future deals more simple. The transactions were also complicated by the fact that the credit markets continue to be very volatile and it is never easy to hold together a multifamily transaction when rates are rising, because everything moves in relation to the interest rates.
- Staff have also been busy putting the finishing touches on the affordable housing plan. The draft plan was released two weeks ago and 130 people attended an informational webinar. About 15% of the people in attendance indicated they would submit comments. A meeting of the Program and Policy Committee will take place the week of September 2 to review comments.
- Staff have also been preparing for two additional Housing and Community Dialogues. The Agency co-hosted with the Greater Minnesota Housing Fund and USDA-Rural Development a dialogue in May in the Brainerd Lakes area. The next event is in Worthington and in October there will be a dialogue in Mankato, where the closure of some college dorms has put a crimp on available housing.

The following employee introductions were made:

- Joel Salzer introduced Kim Bailey, a new employee with the Family Homeless Prevention and Assistance Program (FHPAP). Ms. Bailey has 15 years of experience providing services to those served by FHPAP and also has managed contracts, including FHPAP.
- Gene Aho introduced Krissi Hoffman. Ms. Hoffman is the new home improvement program manager and has ten years in the business, most recently with American Bank in Saint Paul, where she originated Minnesota Housing products. .

E. Committee Report – Finance and Audit Committee of August 29, 2013

Ken Johnson reported that the Finance and Audit Committee had met immediately preceding the regular meeting. The committee reviewed the Agency's financial results, heard a report from CliftonLarsonAllen and approved the 2013 interfund transfers. The committee also requested that additional powers be delegated to staff so they may transfer administrative fees between accounts without board approval. These transfers would be reported to the board on an ongoing basis. **MOTION:** Joe Johnson moved to receive the audit results and Auditor Otto seconded the motion. Motion carries 7-0. Joe Johnson moved approval of the interfund transfers and the drafting of a delegation of authority to staff to transfer administrative fees, as recommended by the committee. John DeCramer seconded the motion. Motion carries 7-0.

6. Consent Agenda

A. Selection/Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Renewals

B. Selection/Commitment, Housing Trust Fund (HTF) Rental Assistance Grant Renewals

Gloria Bostrom moved approval of the consent agenda. Steve Johnson seconded the motion. Motion carries 7-0.

7. Action Items

A. Selections, Homeowner Education, Counseling and Training Fund

Tal Anderson presented this item, noting that the Agency received 39 applications requesting $2.51 million in funding. Staff are recommending 38 applicants for funding in an aggregate amount of $1.4 million. Mr. Anderson stated that there are a number of counseling activities for which HECAT funds may be used, including pre-purchase, home equity conversion (reverse mortgage) and foreclosure prevention. HECAT is supported through ongoing legislative appropriations and Minnesota enjoys support unparalleled in other housing finance agencies; most HFAs are in a position of needing to cobble together federal and local funds and Minnesota Housing has received appropriated funds for the past 20 years and works with a number of local partners, including the Greater Minnesota Housing Fund and the Minnesota Homeownership Center, to administer the HECAT program. The recommended applicants have metro, greater Minnesota and statewide service areas. Eight of the recommended organizations primarily serve households of color. Mr. Anderson provided an overview of the application and selection process and shared that it is expected that fewer households will receive counseling this year compared to last and this is the primarily due due to the decrease in foreclosures throughout the state.

In response to a question from Joe Johnson, Mr. Anderson stated that dollars from the federal government for foreclosure prevention counseling are trailing off. Next year, decisions will be made to determine how to move forward with providing this counseling service if there are no longer federal monies available. Staff have had initial conversations with the Homeownership Center to discuss the landscape for 2014.

Commissioner Tingerthal shared that Hussein Samatar, a founding member of the African Development Center (one of the selected applicants), had recently passed away. Mr. Samatar was a leader in the African American community and a champion of homebuyer education. He worked very hard throughout southern Minnesota and will be very missed.
Auditor Otto moved approval of the selections under the HECAT program. Joe Johnson seconded the motion. Motion carries 7-0.

B. Selection / Commitment, Preservation Affordable Rental Investment Fund (PARIF) - Nimens-Espegard Apartments, Crookston, D7635

Terri Parker presented this request for approval of the selection and commitment of a PARIF deferred loan. Ms. Parker stated that the Greater Minnesota ISG considers the property to be a high priority preservation due to its size, condition, number of rental assisted units and the urgency to transfer to an owner who will preserve the property. The current owners are aging and eligible to prepay the rural development loan and sell to a private owner. The property has 98 units, 48 of which are general occupancy and 50 are for seniors. Seventy-six units receive rental assistance. All funding partners have approved their funding. **MOTION:** Gloria Bostrom moved approval. Stephanie Klinzing seconded the motion. Motion carries 7-0.

C. Modification, Non-Profit Capacity Building Revolving Loan to Local Initiatives Support Coalition (LISC), Twin Cities and Duluth

Mary Ruch presented this request for a five year extension of two loans. Staff have proposed to extend both loans for five years to have coterminous maturity dates and also to restructure the loans as revolving loans. Adoption of these changes will result in an amendment to the 2013 Affordable Housing Plan due to the change of the maturity dates. The change to the maturity date was needed in order to close the loans and restructure them as revolving. **MOTION:** Gloria Bostrom moved approval. John DeCramer seconded the motion. Motion carries 6-0, with Joe Johnson recusing himself due to his membership on the board of Duluth LISC.

8. Discussion Items

A. 2013 Affordable Housing Plan and Strategic Plan: Third Quarter Progress Report

John Patterson shared the following highlights from the progress report: the new Single Family programs have had initially low production, but it has since picked up and is at the highest levels in years. The programs are going well, although they are behind the schedule of the current plan. The home improvement program refinements have resulted in the best July production since 2009. Regarding the asset management program, the Agency has stepped back to reevaluate how funds are being used and how we stabilize and preserve developments.

Commissioner Tingerthal added that staff continue to be concerned that delinquency rates remain stubbornly high. Staff work on a weekly basis with the Agency's servicer to identify if our standards are being applied as intended and are continuing to try to understand what is underlying those numbers. While the numbers are not a cause for undue concern right at this time, it is an area being closely watched by Single Family and they are working to bring those numbers down.

In response to Mr. Ken Johnson, Commissioner Tingerthal stated that she did not have information readily available regarding the Agency's delinquency rates compared with those of other housing finance agencies, but would have staff obtain that information and share it with members. Commissioner Tingerthal did acknowledge that the Agency does differ in the way it tracks its delinquencies, as it continues to track the delinquencies of MBS's that do not appear on the balance sheet, which is not common practice.

In response to a question from Joe Johnson, Mike Haley stated that the difference in delinquencies between whole loans and MBS is about 1%; with whole loans experiencing higher delinquency rates. Mr. Haley stated that the MBS portfolio is in run off and the benchmarks are established on a portfolio that gets loans in and out. The Agency can continue to expect performance from the servicers, but cannot expect significant improvement because it is an old portfolio for which it would be expected that borrowers would have refinanced their loans.

Gloria Bostrom stated that, when analyzing the portfolios, it is important that we look at other sources of funds that have combined with those funds, such as down payment assistance, closing cost assistance and homebuyer education to determine if there are any trends when certain products are used so that ancillary programs can be reviewed to determine if they can be more effective. Mr. Haley responded that there traditionally has been a relationship between delinquencies and loans with higher levels of down payment assistance. During the recession, the amount of down payment assistance was a good predictor of loans that may have problems. There is a risk of higher delinquency rates for loans with higher assistance, but it is a risk the Agency is willing to take to achieve the mission. Mr. Haley also stated that underwriting standards have changed greatly and the Agency is working under what it believes to be very appropriate overlays right now. Mr. Haley also stated that he does not believe there is a rehab component to these delinquencies.

B. Draft 2014 Affordable Housing Plan

John Patterson gave a presentation on the draft affordable housing plan. Mr. Patterson stated that a big difference in the key numbers is that there are not housing infrastructure or general obligation bonds available this year. He also noted that the Agency is implementing the changes put in place last year to ensure that it is serving very vulnerable persons and that there are strong credit pressures for lower income households and especially households of color.

Mr. Patterson stated that a Program and Policy Committee meeting would be held the week of September 2 to review the public comments received on the plan. In response to a question from Ken Johnson, Mr. Patterson stated that the comments received were more requests for clarifications than critiques of the plan, including how the Agency would add resources, in particular resources to serve extremely low income persons and households. Mr. Patterson stated that there are not a lot of new resources available for this purpose, particularly because there are no general obligation bonds for public housing available in the plan. Members would be provided with a summary of the public comments received at a policy and program committee the following week.

Commissioner Tingerthal stated that she was personally very exciting about the $10 million available for portfolio first mortgage lending and the additional dollars for more intensive financial literacy and a new type of homebuyer education focused on families who have barriers to homeownership, where counselors will spend time with them over an extended period of time to get them ready for homeownership, similar to public housing authorities who have identified tenants who then work for one to two years with an organization to move out of public housing and purchase a home. This is the model the Agency is hoping to have, but working with households who are not public housing tenants. Tingerthal stated that it is tough out there for buyers who do not have pristine credit and it is a tall order to qualify for a mortgage these days. The San Francisco Federal Reserve Bank has released a study from their district that has reaffirmed that this is a trend around the country; seems like a modest pilot to put a little of our balance sheet out there to find those good homebuyers that do have a job, can afford a house but don’t have that pristine credit. This is the biggest new initiative this year.
The other comment Tingerthal made was that it is very clear there was a fair amount of pent up demand for the housing infrastructure bonds,; there are at least three projects that serve very low-income people that are queuing up to talk with legislators about the need for additional housing infrastructure bonds.

Stephanie Klinzing stated that the plan is very good and there are many things the Agency would like to do but can’t right now. Klinzing shared that she had just returned from that National

Council of State Housing Boards workshop and had the opportunity there to participate in a roundtable discussion with board members from other states. There was great interest in unique programs and Commissioner Tingerthal shared information about the workforce housing / jobs initiative and the housing for ex-offenders initiative. There were few new programs or initiatives coming from other housing finance agencies, but one interesting program targets people leaving affordable housing ownership and offers incentives for them to make improvements and leave the property in the portfolio. Klinzing stated that, even though we're lean, we are still doing some wonderful things and we tend to look at things more closely in lean times, including the people we want to serve. This plan, done in a difficult economic atmosphere is really good and depicts who we are as an agency. The commitment to mission of all housing finance agencies is very strong and the agencies exist because they have a mission to provide affordable housing and to give people a place to live.

Auditor Otto stated that Minnesota Housing tends to be a leader and always has innovated programs.

Gloria Bostrom stated that she felt the plan addressed what is really important in Minnesota right now, while still taking care of the long term business and that addressing foreclosure before it happens through education programs is very important.

9. Informational Items

No items.

10. Other Business

Stephanie Klinzing commented on the Indian Housing Conference that she and Ken Johnson attended in early August. Ms. Klinzing stated that the four day conference was excellent and there is much happening in Indian country, including a rent-to-own single family project that Ms. Klinzing's tribal affiliation presented on. Ms. Klinzing stated that Rick Smith, the Agency's Indian Housing Liaison, is a shining star who is very good at what he does and is an excellent employee. Ken Johnson shared Ms. Klinzing's sentiments and added that he talked with both federal and tribal officials and it is apparent that Minnesota is very much a leader in working collaboratively with the tribes.

11. Adjournment.

The meeting was adjourned at 1:59 p.m.

AGENDA ITEM: 7.A.
MINNESOTA HOUSING BOARD MEETING
September 26, 2013

ITEM: 2014 Affordable Housing Plan

CONTACT: Mary Tingerthal, 651-296-5738, mary.tingerthal@state.mn.us
John Patterson, 651-296-0763, john.patterson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

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

☐ Other: ________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Attached is the 2014 Minnesota Housing Affordable Housing Plan for Board approval.

FISCAL IMPACT:
The Affordable Housing Plan (AHP) allocates $795 million of federal, state, and Agency resources for the period October 1, 2013 through September 30, 2014.

MEETING AGENCY PRIORITIES:

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

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

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Summary of Changes – Final AHP versus August Draft
- 2014 Minnesota Housing Affordable Housing Plan

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Summary of Changes – Final 2014 AHP versus August Draft

The following table shows the funding changes by program between the recommended final AHP and the August draft. Most of the changes are small and reflect updated estimates of the uncommitted funds that will carry forward from the 2013 to the 2014 AHP. The exceptions are:

- Line 3 – The table shows a $68 million reduction in activity under the Mortgage Credit Certificate (MCC) program. This is just a presentation issue. In previous drafts, the funding tables presented the bonding authority the Agency converted to MCCs for use under the 2014 AHP. However, the bonding authority overstates the actual MCC activity. There is a 25 percent conversation rate from bonding authority to MCC authority. For example, a $100 million of bonding authority equates to $25 million of MCC authority. The funding tables in the final 2014 AHP show the MCC authority, rather than the bonding authority. This change in presentation accounts for all of the reduction. Specifically, the $94,046,711 million of bonding authority originally budgeted in the August draft of the 2014 AHP is equivalent to $23,511,678 of MCC authority (applying the 25 percent conversion). As the following table shows, the final 2014 AHP includes $25,600,000 of MCC authority, which is actually a $2,088,322 increase in MCC authority.

- Line 5 – To ensure sufficient funds for the Deferred Payment Loan program (down-payment and closing-cost assistance) to support the Agency's first-mortgage production, the staff is recommending a $500,000 increase in funding.

- Line 12 – To ensure sufficient amortizing loan funds for rental production, staff is recommending a $10 million increase in LMIR funding.

Line 15 shows a $2.8 million reduction in funding for Affordable Rental Preservation. While this change just reflects an updated estimate of the uncommitted funds that will carry forward from the 2013 to the 2014 AHP, the change is large enough to necessitate a confirmation that it is an adjustment in the estimated funds available, rather than a priority change. A couple pipeline projects that were approved under the 2013 AHP reduced the uncommitted funds that will carry forward.

Almost of the wording changes in the final AHP just reflect refinements and clarification of the discussion in August draft. The only substantive change is an added discussion about the loss of Housing Choice Vouchers, which are funded by the federal government. (See page 16 of the AHP.)

2014 AHP DRAFTS - Funding for New Activity - By Program

		August	Final	Change
	Homebuyer and Home Refinance	**$499,286,352**	**$431,338,750**	**-$67,947,602**
1	Home Mortgage Loans (Net Commitments)	$376,000,000	$376,000,000	$0
2	Targeted Mortgage Opportunity Program	$10,000,000	$10,000,000	$0
3	Mortgage Credit Certificates (MCC) *	$94,046,711	$25,600,000	-$68,446,711
4	Deferred Payment Loan Program	$3,500,000	$4,000,000	$500,000
5	HOME HELP	$3,400,000	$3,400,000	$0
6	Monthly Payment Loan Program	$7,000,000	$7,000,000	$0
7	Single Family Interim Lending	$1,522,750	$1,522,750	$0
8	Habitat for Humanity Initiative	$2,000,000	$2,000,000	$0
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,316,891	$1,316,000	-$891
9a	HECAT - Enhanced Financial Capacity Initiative	$500,000	$500,000	$0
	Home Improvement	**$20,930,000**	**$20,930,000**	**$0**
10	Home Improvement Loan Program	$13,830,000	$13,830,000	$0
10a	Targeted Home Improvement Interest Write-Down	$500,000	$500,000	$0
11	Rehabilitation Loan Program (RLP)	$6,600,000	$6,600,000	$0
	Rental Production - New Construction and Rehabilitation	**$79,058,868**	**$86,000,963**	**$6,942,095**
12	Multifamily Amortizing First Mortgages	$40,000,000	$50,000,000	$10,000,000
12a	Low and Moderate Income Rental (LMIR)	$30,000,000	$40,000,000	$10,000,000
12b	MAP Lending (Multifamily Accelerated Processing)	$10,000,000	$10,000,000	$0
13	Flexible Financing for Capital Costs (FFCC)	$4,500,000	$4,500,000	$0
14	Low-Income Housing Tax Credits (LIHTC)	$8,201,743	$8,201,743	$0
15	Affordable Rental Preservation (PARIF and HOME HARP)	$22,962,970	$20,102,939	-$2,860,031
16	Housing Trust Fund (Capital)	$0	$0	$0
17	Publicly Owned Housing Program (POHP)	$138,979	$58,281	-$80,698
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$3,255,176	$3,138,000	-$117,176
19	Rental Rehabilitation Loan Program	$0	$0	$0
	Rental Assistance Contract Administration	**$183,890,970**	**$183,890,970**	**$0**
20	Section 8 - Performance Based Contract Administration (PBCA)	$113,000,000	$113,000,000	$0
21	Section 8 - Traditional Contract Administration (TCA)	$70,000,000	$70,000,000	$0
22	Section 236	$890,970	$890,970	$0
	Resources to Prevent and End Homelessness (Non-Capital)	**$28,616,455**	**$29,020,389**	**$403,934**
23	Housing Trust Fund (HTF) - **Net Activity**	$13,995,086	$14,407,373	$412,287
23a	Funding for new contracts	$3,905,637	$3,935,134	$29,497
23b	Adj. to spread two-year contracts over two years	$10,089,449	$10,472,239	$382,790
24	Ending Long-Term Homelessness Initiative Fund (ELHIF) - **Net Activity**	$4,072,271	$3,420,271	-$652,001
24a	Funding for new contracts	$1,719,000	$1,719,000	$0
24b	Adj. to spread two-year contracts over two years	$2,353,271	$1,701,271	-$652,001
25	Bridges - **Net Activity**	$2,467,000	$3,111,500	$644,500
25a	Funding for new contracts	$0	$400,000	$400,000
25b	Adj. to spread two-year contracts over two years	$2,467,000	$2,711,500	$244,500
26	Section 811 Demonstration	$80,000	$80,000	$0
27	Family Homeless Prevention and Assistance Program (FHPAP) - **Net Activity**	$7,862,000	$7,862,000	$0
27a	Funding for new contracts	$0	$0	$0
27b	Adj. to spread two-year contracts over two years	$7,862,000	$7,862,000	$0
28	Housing Opportunities for Persons with AIDS (HOPWA)	$140,098	$139,245	-$853
	Rental Portfolio Management	**$6,500,000**	**$6,500,000**	**$0**
29	Asset Management	$3,000,000	$3,000,000	$0
30	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,500,000	$3,500,000	$0
	Multiple Use Resources	**$33,142,185**	**$33,568,827**	**$426,642**
31	Economic Development and Housing/ Challenge (EDHC)	$27,487,185	$27,827,907	$340,722
32	Technical Assistance and Operating Support	$2,655,000	$2,740,920	$85,920
33	Non-Profit Capacity Building Loan Program	$1,000,000	$1,000,000	$0
34	Strategic Priority Contingency Fund	$2,000,000	$2,000,000	$0
	Other	**$2,893,873**	**$3,591,115**	**$697,242**
35	Administrative Expenses HOME	$592,222	$592,222	$0
36	Manufactured Home Relocation Trust Fund	$1,279,536	$1,279,536	$0
37	Flood Disaster	$0	$0	$0
38	Disaster Relief Contingency Fund	$1,022,115	$1,719,357	$697,242
	Total	**$854,318,703**	**$794,841,013**	**-$59,477,690**

* The $94 million figure in the August draft represents the bonding authority used to create the MCCs. This $94 million in bonding authority is equivalent to $23.5 million in MCC authority after applying the 25% conversion factor. The $25.6 million shown in final draft represents the MCC authority.

MINNESOTA HOUSING

2014 Affordable Housing Plan

Minnesota Housing Finance Agency

Photo: Renaissance Box, Saint Paul

Minnesota Housing finances **affordable housing** for low- and moderate-income Minnesotans while fostering **strong communities**.

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Minnesota Housing Finance Agency

2014 Affordable Housing Plan

Executive Summary

The 2014 Affordable Housing Plan (AHP) is Minnesota Housing's annual business plan for carrying out the Agency's core work for the upcoming year and implementing the 2013-15 Strategic Plan. The AHP outlines key programmatic and policy initiatives for the year, specifies program-by-program funding, and establishes production targets. In total, the plan allocates about $795 million of federal, state, and agency housing resources, which will assist approximately 65,000 households or housing units.

As Minnesota and the country come out of the economic and housing crisis, we are in a period of transition with uncertainties and adjustments. The economy and housing market are recovering, but many low- and moderate-income Minnesotans and communities are at risk of being left behind as the state and country adjust to new realities. Households with lower quality credit, people experiencing homelessness, and extremely-low income households are among the most vulnerable. Under the 2014 AHP, Minnesota Housing will focus its efforts on providing affordable housing options and choices to help low- and moderate-income Minnesotans and communities succeed in this environment. These efforts can best be summarized in the context of the Agency's five strategic priorities.

Promote and Support Successful Homeownership

- **Continue to provide low-interest mortgages with enhancements (such as down-payment assistance).** Low- and moderate-income households are having a difficult time qualifying for mortgages and taking advantage of what have been low home prices and interest rates. Lenders and servicers are extremely cautious about extending credit in a time of rapid regulatory change and uncertainty. In this environment, the Agency's core mortgage work is critical.

- **Develop strategies to effectively deliver Agency products and services in a rapidly changing housing market, real estate finance system, and regulatory environment.** Minnesota Housing relies on private sector lenders and servicers as delivery partners for its single-family products. The Agency must work closely with these partners to assure that its products and services are effectively delivered and continue to support successful homeownership in this environment.

- **Strive for 22 percent of Minnesota Housing's first-time borrowers being households of color or Hispanic ethnicity to reduce homeownership disparities.** The current credit environment coupled with the foreclosure crisis has hit households of color or Hispanic ethnicity particularly hard. The homeownership disparity in Minnesota (the percentage of white households that own their homes compared with the percentage of households of color or Hispanic ethnicity that own their homes) increased by 7.3 percentage points between 2008 and 2011. Minnesota now has the largest disparity in the country. To address this, the Agency will:
  - Implement a new Targeted Mortgage Opportunity Program ($10 million) to provide sustainable first-mortgage (or equivalent) financing opportunities for households facing barriers to credit, particularly emerging market households (households of color or Hispanic ethnicity); and
  - Implement a new Enhanced Financial Capacity Initiative ($500,000) for intensive homeowner and financial literacy training to increase the financial capacity of potential homeowners, particularly emerging market households.

- **Implement a targeted home improvement initiative to provide reduced interest rates on home improvement loans to help households with incomes in the middle of the low-to-moderate income spectrum.** The Agency's regular Home Improvement Loan Program typically serves homeowners in the $61,000 income range, while its Rehabilitation Loan Program serves households in the $14,000 range. This initiative will serve about 200 households with incomes in between.

<u>Prevent Foreclosures and Support Community Recovery</u>

- **Continue making foreclosure mitigation a priority in selecting developments for funding.** The foreclosure crisis has had a severe economic impact on some communities across the state. Under the Agency's multifamily and single-family process for selecting developments for funding, the Agency prioritizes projects involving foreclosed properties and/or any housing investments in communities heavily impacted by the crisis.

- **Implement the newly refined community-recovery selection criteria under the Single Family Division's Community Homeownership Impact Fund to direct resources to communities with a combination of lower-income residents, older housing stock, and/or large price declines.** Communities with a combination of those three conditions have been the hardest hit by the economic and housing crises and often lack private investment for recovery.

<u>Preserve Federally-Subsidized Rental Housing</u>

- **Implement a revamped preservation criterion in selecting rental developments for funding, which will make it more objective, transparent, systematic, and data driven.** A threat to providing extremely-low-income households with affordable housing is the potential loss of project-based rent assistance due to conversion to market-rate or physical deterioration. Under these programs, tenants pay no more than 30 percent of their income on rent and utilities, which is critical when their median income is just $11,000.

<u>Address Specific and Critical Needs in Rental Housing Markets</u>

- **Conduct ongoing conversations with individual communities about their housing and development needs**. The types of affordable housing opportunities needed in each community across the state are different, and Minnesota Housing needs flexible responses. Areas of discussion could include: (1) workforce housing, (2) housing for seniors, (3) rental properties with large units for large families, (4) homelessness, (5) housing for people with disabilities, (6) community recovery, and (7) rental shortages, as reflected by low vacancy rates.

- **Implement Governor Dayton's Housing-Jobs initiative to promote economic development in communities needing workforce housing.** During the 2013 Legislative Session, Minnesota Housing received $10 million for the Governor's Housing-Jobs Initiative, which will help finance affordable housing (rental and homeownership) in the parts of the state where employers are poised to expand but there is not enough housing to meet the needs of the local workforce.

- **Continue to assist seniors so that they can to age in place and remain in their community.** The Agency will pursue opportunities to better coordinate housing programs with human services programs that serve the elderly. Programs and policies will be refined to best support community-based housing for seniors and address housing gaps for renters and homeowners.

Prevent and End Homelessness

- **Carry out ongoing core work to address homelessness, which includes financing supportive housing for people experiencing long-term homelessness, homelessness prevention assistance, rent assistance, and operating subsidies.** With respect to housing options, homelessness is a worst-case scenario. People experiencing homelessness find themselves in a situation where they have no housing options at all.

- **Reinvigorate the Minnesota Interagency Council on Homelessness (MICH), which will develop a state plan to prevent and end homelessness.** Homelessness is not just a housing issue. It affects the work of many state agencies. For the upcoming year, the center piece of MICH's work will be the creation of Minnesota's Plan to Prevent and End Homelessness (a strategic document) and accompanying two-year Interagency Action Plans to implement the strategic plan.

- **Implement new rent assistance for ex-offenders transitioning out of correctional facilities and highly-mobile families with school-age children.** Recognizing the cross-agency linkages between housing and corrections and education programs, Governor Dayton created these across-agency initiatives, which received $3 million in funding during the 2013 Legislative session.

Multiple Priority Efforts

In providing housing options and choices to households and communities, Minnesota Housing balances multiple policy objectives, including: (1) providing access to opportunities (jobs, transit, amenities, services, good schools, etc.), (2) investing in community recovery, (3) serving special populations (homeless individuals, extremely-low income households, and others), and (4) selecting high-quality and cost effective developments. The Agency is also reaching across bureaucratic "silos" and coordinating its work with other agencies to address cross-cutting issues. Housing stability affects program success in many other agencies, including human services, education, employment, corrections.

In summary, Minnesota Housing's key activities for 2014 will include:

- Addressing credit and regulatory pressures that are limiting access to homeownership for lower-income households, especially households of color or Hispanic ethnicity;
- Championing the development of the State Plan to Prevent and End Homelessness;
- Engaging communities in planning for their diverse housing needs; and
- Continuing to preserve federally-subsidized housing, which primarily serves extremely-low income households.

The 2014 AHP contains the following sections:

- Program Budget Overview
- Key Initiatives
- Funding by Strategic Priority
- Household and Unit Projections
- Funding by Source
- Appendix A: Program Funding by Source
- Appendix B: Program Narratives

Program Budget Overview for 2014

As shown in Table 1, the Agency's 2014 program budget is about $795 million, which is a 5 percent decrease from the previous year. As will be discussed in the last section of the Plan, the $42 million reduction in the 2014 budget is explained largely by the lack of $35.5 million of state capital investments that were appropriated for 2013. In a period of a challenging bond market and limited resources, the Agency is able to maintain a similar level of funding as 2013 (the Agency's largest budget ever) by identifying funding options and pursuing those that will further the Agency's mission of financing affordable housing for low- and moderate-income Minnesotans.

Table 1: Funding by Program Category

Program Category	Original 2013 AHP	Proposed 2014 AHP
Homebuyer and Home Refinance*	$381,806,959	$431,338,750
Home Improvement	$26,215,000	$20,930,000
Rental Production - New Construction and Rehabilitation	$146,947,057	$86,000,963
Rental Assistance Contract Administration	$179,840,000	$183,890,970
Resources to Prevent and End Homelessness (Non-Capital)	$25,074,443	$29,020,389
Rental Portfolio Management	$6,460,090	$6,500,000
Multiple Use Resources	$55,005,198	$33,568,827
Other	$15,592,951	$3,591,115
Total	$836,941,698	$794,841,013

* This includes funds for Mortgage Credit Certificates (MCCs). Previously, the AHP reported the bonding authority that was allocated for MCC use. The AHP now reports the MCC authority being used, which 25 percent less than the bonding authority (reflecting a 25 percent conversion rate). The MCC funding that was adopted in the 2013 AHP has been revised to reflect the lower converted amount.

The primary changes in funding are:

- The Agency will increase its Homebuyer and Home Refinance funding by $50 million, which includes the following estimates: (1) a $26 million increase in regular Home Mortgage Loan production, (2) $10 million for a new Targeted Mortgage Opportunity Program (an initiative to provide mortgage financing to households having trouble accessing credit in the current market, particularly households of color or Hispanic ethnicity), and (3) a $13 million increase in Mortgage Credit Certificate financing (a tax credit for first-time homebuyers on their mortgage interest).

- Home Improvement funding will drop by $5 million. The reduction recognizes current market realities. In the current year (2013), the Agency is not going to commit all the home improvement funds budgeted. With the slow recovery from the Great Recession, large home value declines since 2006, and many homeowners owing more on their existing mortgages than their homes are worth, the home improvement market has been very slow. Funding for 2014 will match 2013's actual production (rather than budgeted) with a small increase.

- Funding for Rental Production will drop by $60 million. This includes a $40 million reduction in amortizing mortgages from the Agency. Given the challenges in the current bond market for accessing low-cost capital and the relatively low interest rates for multifamily mortgages from other lenders, demand for amortizing mortgages financed by the Agency has been limited. In

2013, the Agency budgeted $90 million for amortizing mortgages (permanent and bridge loans) under the Low and Moderate Income Rental LMIR) program but only expects to commit $30 million of that amount. For 2014, the Agency is budgeting $40 million under LMIR to finance amortizing mortgages. To partially offset this $50 reduction and help the rental properties obtain mortgages on the most favorable terms possible, Minnesota Housing recently became a MAP (Multifamily Accelerated Processing) lender, which is a fast-track processing system for FHA's multifamily insurance programs. In 2014, the Agency expects this effort to support another $10 million of amortizing mortgages originated by Minnesota Housing.

The rest of the difference in funding for Rental Production occurred because Minnesota Housing received $5.5 million of general obligation bond proceeds and $30 million of housing infrastructure bond proceeds in 2013. The Legislature did not make these funds available for 2014. For 2013, the Agency budgeted all $5.5 million of the general obligation bonds and $12 million of the housing infrastructure bonds to Rental Production. The remaining $18 million of housing infrastructure bonds went to Multiple Use Resources. Thus funding for Multiple Use Resources will also decline in 2014.

- The Other program category declined by $12 million because the 2013 AHP included flood relief funds for Northeast Minnesota that are not needed in 2014.

- Funding levels for Rent Assistance Contract Administration, Resources to Prevent and End Homelessness, and Rental Portfolio Management are very similar for 2013 and 2014.

Overall, the Agency developed the funding decisions in the 2014 AHP based on several factors, which include:

- Fulfilling the Agency's mission,
- Following the strategic priorities outlined in the 2013-15 Strategic Plan,
- Accessing all funding sources that the Agency can effectively use to further its mission,
- Matching funding sources with the activities that they can legally and effectively support (state and federal appropriations and federal tax law restrict how funds can be used),
- Serving the full spectrum of low- and moderate-income Minnesota households, which range from extremely-low to moderate income, homeowners to renters, urban to rural, etc.,
- Meeting the varying needs of these Minnesota households,
- Funding a full spectrum of affordable housing activities, which include homeownership, home improvement, new rental construction, rental preservation, rental assistance, supportive housing, homelessness prevention, foreclosure prevention, community recovery, etc.,
- Placing a special emphasis on populations facing barriers to affordable and stable housing
- Directing "gap/affordability" funds (grants and deferred loans) to the Minnesota households needing the most help to obtain stable housing,
- Supporting economic and community development,
- Examining the long-term sustainability of the funding, and
- Maintaining the Agency's long-term financial strength.

The program categories in Table 1 summarize the 38 programs carried out by the Agency. Table 2 lists each of the programs and their 2013 and 2014 funding, along with basic program information. For more detailed information about each program, see Appendix B.

Table 2: 2013 and 2014 Budget and Program Summary

		Original 2013 Funding Level	2014 Funding Level	Activity	Median Income Served	Percentage Served from Communities of Color
	Homebuyer and Home Refinance	**$381,806,959**	**$431,338,750**			
1	Home Mortgage Loans (Net Commitments)*	$350,000,000	$376,000,000	First Mortgage	$44,000	23%
2	Targeted Mortgage Opportunity Program	$0	$10,000,000	First Mortgage	N/A	N/A
3	Mortgage Credit Certificates (MCC)**	$12,500,000	$25,600,000	Tax Credit on Interest	N/A	N/A
4	Deferred Payment Loan Program	$5,841,209	$4,000,000	DP and CC Assistance***	$44,000	25%
5	HOME HELP	$4,000,000	$3,400,000	DP and CC Assistance***	$39,000	40%
6	Monthly Payment Loan Program	$5,000,000	$7,000,000	DP and CC Assistance***	N/A	N/A
7	Single Family Interim Lending	$910,000	$1,522,750	Deferred Loan	N/A	N/A
8	Habitat for Humanity Initiative	$2,000,000	$2,000,000	Homebuyer Financing	$33,000	77%
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,555,750	$1,316,000	Education & Counseling	$34,000	29%
9a	HECAT - Enhanced Financial Capacity Initiative	$0	$500,000	Education & Counseling	N/A	N/A
	Home Improvement	**$26,215,000**	**$20,930,000**			
10	Home Improvement Loan Program	$20,465,000	$13,830,000	Home Improvement Loan	$61,000	8%
10a	Targeted Home Improvement Interest Write-Down	$0	$500,000	Home Improvement Loan	N/A	N/A
11	Rehabilitation Loan Program (RLP)	$5,750,000	$6,600,000	Home Improvement Loan	$14,000	11%
	Rental Production - New Construction and Rehabilitation	**$146,947,057**	**$86,000,963**			
12	Multifamily Amortizing First Mortgages	$90,000,000	$50,000,000	Amortizing Loan	N/A	N/A
12a	Low and Moderate Income Rental (LMIR)	$90,000,000	$40,000,000	Amortizing Loan	$18,000	42%
12b	MAP Lending (Multifamily Accelerated Processing)	$0	$10,000,000	Accelerated Processing	N/A	N/A
13	Flexible Financing for Capital Costs (FFCC)	$4,000,000	$4,500,000	Deferred Loan	N/A	N/A
14	Low-Income Housing Tax Credits (LIHTC)	$8,043,053	$8,201,743	Investment Tax Credit	$18,000	44%
15	Affordable Rental Preservation (PARIF and HOME HARP)	$25,315,849	$20,102,939	Deferred Loan	$12,000	57%
16	Housing Trust Fund (Capital)	$12,000,000	$0	Deferred Loan	$8,000	42%
17	Publicly Owned Housing Program (POHP)	$5,567,979	$58,281	Deferred Loan	$7,000	21%
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$1,520,176	$3,138,000	Deferred Loan	N/A	N/A
19	Rental Rehabilitation Loan Program	$500,000	$0	Amortizing Loan	$8,000	N/A
	Rental Assistance Contract Administration	**$179,840,000**	**$183,890,970**			
20	Section 8 - Performance Based Contract Administration (PBCA)	$107,100,000	$113,000,000	Rent Assistance	$11,000	37%
21	Section 8 - Traditional Contract Administration (TCA)	$71,115,000	$70,000,000	Rent Assistance	$12,000	25%
22	Section 236	$1,625,000	$890,970	Interest Rate Reduction	N/A	N/A
	Resources to Prevent and End Homelessness (Non-Capital)	**$25,074,443**	**$29,020,389**			
23	Housing Trust Fund (HTF) - **Net Activity**	$10,588,219	$14,407,373	RA and OS****	$8,000	64%
23a	Funding for new contracts	N/A	$3,935,134			
23b	Adj. to spread two-year contracts over two years	N/A	$10,472,239			
24	Ending Long-Term Homelessness Initiative Fund (ELHIF) - **Net Activity**	$3,364,781	$3,420,271	RA and OS****	N/A	N/A
24a	Funding for new contracts	N/A	$1,719,000			
24b	Adj. to spread two-year contracts over two years	N/A	$1,701,271			
25	Bridges - **Net Activity**	$3,513,771	$3,111,500	Rent Assistance	$9,000	31%
25a	Funding for new contracts	N/A	$400,000			
25b	Adj. to spread two-year contracts over two years	N/A	$2,711,500			
26	Section 811 Demonstration	$0	$80,000	Rent Assistance	N/A	N/A
27	Family Homeless Prevention and Assistance Program (FHPAP) - **Net Activity**	$7,465,000	$7,862,000	Grants	$9,000	57%
27a	Funding for new contracts	N/A	$0			
27b	Adj. to spread two-year contracts over two years	N/A	$7,862,000			
28	Housing Opportunities for Persons with AIDS (HOPWA)	$142,672	$139,245	Grants	$16,000	44%
	Rental Portfolio Management	**$6,460,090**	**$6,500,000**			
29	Asset Management	$3,100,000	$3,000,000	Loans	N/A	N/A
30	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,360,090	$3,500,000	Loans & Grants	N/A	N/A
	Multiple Use Resources	**$55,005,198**	**$33,568,827**			
31	Economic Development and Housing/ Challenge (EDHC)	$49,489,227	$27,827,907	Loans & Grants	MF $20K SF $35K	MF 60% SF 40%

		Original 2013 Funding Level	2014 Funding Level	Activity	Median Income Served	Percentage Served from Communities of Color
32	Technical Assistance and Operating Support	$2,515,971	$2,740,920	Grants	N/A	N/A
33	Non-Profit Capacity Building Loan Program	$1,000,000	$1,000,000	Revolving Deferred Loan	N/A	N/A
34	Strategic Priority Contingency Fund	$2,000,000	$2,000,000	Loans & Grants	N/A	N/A
	Other	**$15,592,951**	**$3,591,115**			
35	Administrative Expenses HOME	$615,415	$592,222	Admin.	N/A	N/A
36	Manufactured Home Relocation Trust Fund	$1,279,536	$1,279,536	Grants	N/A	N/A
37	Flood Disaster	$12,720,000	$0	Loans & Grants	N/A	N/A
38	Disaster Relief Contingency Fund	$978,000	$1,719,357	Loans & Grants	$31,000	59%
	Total	**$836,941,698**	**$794,841,013**			

* Home Mortgage Loans will be funded for estimated gross commitments of $470,000,000 in 2014. Historically, about 20% of loan commitments cancel, which will result in net commitments of approximately $376,000,000.
** Previously, the AHP reported the bonding authority that was allocated for MCC use. The AHP now reports the MCC authority being used, which 25 percent less than the bonding authority (reflecting a 25 percent conversion rate). The MCC funding that was adopted in the 2013 AHP has been revised to reflect the lower converted amount.
*** "DP and CC Assistance" is Down-payment and Closing Cost Assistance
**** "RA and OS" is Rental Assistance and Operating Support

As shown in Table 2, the two biggest program areas for the Agency are mortgages for homebuyers and home refinancing (lines 1 and 2) and the administration of Section 8 contracts for project-based rent assistance (lines 20 and 21). Both of these areas are critical for the Agency to fulfill its mission. The mortgage activity allows low- and moderate-income households to pursue the dream of homeownership, which they would have otherwise struggled to achieve. In light of the foreclosure crisis, Minnesota Housing has expanded its commitment to promote and support successful homeownership. The mortgage program is also the Agency's primary business engine that generates revenues to fund the Agency's Pool 3/Foundation (which finances grant and deferred-loan activity throughout the Agency) and cover agency-wide operating expenses. To complement the single family mortgage activity, the Section 8 program (project-based) makes it possible for about 30,000 of the state's lowest-income households to spend only 30 percent of their income on rent and utilities. Another large program is the Low Income Housing Tax Credit (LIHTC) program (line 14). While the agency will allocate $8.2 million of tax credits in 2014 to developments for lower income renters, these credits will likely generate between $65 million and $75 million in private capital to finance the developments, depending on the pricing of the tax credits.[1]

Table 2 also shows the full spectrum of low- and moderate-income households that the Agency serves, based on historical data. Rent assistance programs (lines 20-26) typically serve households with incomes around $10,000, while the Home Improvement Loan Program (line 10) serves households in the $60,000 range. The rental property development programs and the homebuyer programs serve households with incomes in between. For comparison, the HUD-defined statewide median family income is $74,000 for Minnesota in 2013.[2]

Table 2 also shows the percentage of households served that are from communities of color or Hispanic ethnicity, based on historical data. Minnesota Housing wants to make sure that households that have traditionally faced barriers to affordable housing have access to its programs and affordable housing. As shown in Table 2, households of color or Hispanic ethnicity represent a relatively large share of the households served by the Agency. Households of color or Hispanic ethnicity generally represent from 22 percent of the Agency's homebuyers to 44 percent of tenants in tax credit development to 57 percent of households participating in the Family Homeless Prevention and Assistance Program. In comparison, households of color or Hispanic ethnicity account for 12 percent of all households in Minnesota; and lower-income households of color or Hispanic ethnicity account for 17 percent of all lower-income households in Minnesota.[3] (Lower-income is defined here as annual household incomes less than $50,000.)

Finally, the section of Table 2 addressing "Resources to Prevent and End Homelessness" has adjustments to reflect two-year contracts into which Minnesota Housing recently entered. (See lines 23-25 and 27.) In 2013, the Agency originally budgeted these programs for one-year contracts (as show in Table 2). However, in June of 2013, the Agency's Board approved an AHP amendment allowing the Agency to enter into two-year contracts in 2013. Thus, Table 2 shows three components for these programs in 2014. Sub-line "a" shows the funds needed to enter into new contracts in 2014, sub-line "b" shows the adjustment to spread the two-year contracts over two-years, and the main-line "Net Activity" combines the two to show the overall activity. For example, the Bridges program will have $400,000 of new contracts in 2014 (line 25a), but $2.7 million of the 2013 Bridges two-year contract is allocated to 2014. The break out is needed for budgeting and accurately reflecting Agency operations. From a budgeting perspective, sub-line "a" shows the funds that are needed to sign new contracts, while the main-line (Net Activity) reflects overall program activity after the contracts are spread over two years, which is a better reflection of the Agency's operations.

Minnesota Housing also serves each region of the state in relative proportion to each region's share of households and jobs. This includes the Twin Cities metropolitan area, Greater Minnesota job centers, and rural areas. While the Agency does not use a rigid regional allocation formula, the Agency is committed to monitoring the distribution to determine if it is distributing resources in a manner that is reasonably proportional. This Agency's recent history of regional allocations can be found in the Agency's report *Regional Distribution of Minnesota Housing Assistance*.[4]

Key Initiatives for 2014

The economy, housing market, and financial markets fundamentally changed after their collapse in 2008 and 2009. With these changes, the nation and Minnesota have confronted a “new normal” that has required Minnesota Housing to adapt and evolve to remain effective. In 2013, the Agency implemented some larger-scale changes to its financing mechanisms and programs. As outlined in last year’s AHP, the Agency: (1) added financing tools to overcome challenges presented by the bond market, (2) implemented a revised and enhanced set of homeownership and home improvement loan products, (3) started enhancing and refining its strategies and tools for preserving and stabilizing affordable rental housing, and (4) carried out a range of other critical activities. With these changes, the Agency has positioned it overall financing and program structures to effectively serve Minnesota going into the future.

While these program changes were being implemented, Minnesota’s economy and housing market were also recovering, however slowly.

- The statewide unemployment rate has dropped from a peak of 8.3 percent in June of 2009 to 5.2 percent in July of 2013.[5]
- The number of foreclosures in Minnesota has dropped from a peak of over 26,000 in 2008 to a little less than 18,000 in 2012.[6]
- The median home sales price in the Twin Cities metro area has increased from $165,000 in June of 2011 to $210,000 this June.[7]
- The apartment vacancy rate in the Twin Cities has dropped from a peak of 7.3 percent in December of 2009 to 2.3 percent in June of 2013.[8]

However, even with redesigned programs and an improving environment, many low- and moderate-income Minnesotans and communities are at risk of being left behind as the state and country continue to confront ongoing financial uncertainties and as everyone adjusts to new realities. While Minnesota Housing made larger-scale financing and program changes in 2013, the Agency will fine tune this work in 2014 by focusing on households and communities facing the biggest barriers to safe, stable, and affordable housing. Specifically, the Agency will strategically enhance the housing options and choices provided to these households and communities so that they have increased opportunities for success.

The Current Environment

The need for more affordable housing is increasing. Between 2000 and 2011, the percentage of Minnesotans who were cost burdened by their housing payments (spending more than 30% of their income for housing) increased from 22 percent to 33 percent. The trend occurred because median incomes declined by 10 percent (after adjusting for inflation) and median monthly housing costs increased 3 percent for renters and 5 percent for homeowners.[9] This overall increase in housing costs masks fluctuations that occurred during the decade – they increased in the early- and mid-2000s, fell in the late-2000s, and have started to increase again over the last couple of years.

The increase in cost-burdened households will likely continue. While Minnesota is recovering many of the jobs lost during the Great Recession, they are typically in lower wage industries.[10] Thus, the state will likely see continued reductions in median wages (assuming current employment trends continue), and housing costs are rising. As discussed earlier, the median price of a home sold in the Twin Cities increased by $45,000 in the last two years.[11] In addition, interest rates for standard fixed-rate mortgages have increased significantly over the last few months, rising from 3.35 percent on May 2 to 4.57 percent on September 5.[12] On the rental side, rents are on the rise with vacancy rates below 5 percent. In the last two years, average rents in the Twin Cities region increased from $916 to $979.[13]

The prospect of more cost-burdened households is a particular concern for the lowest-income households. They are already far more likely to be cost burdened. While 33 percent of all Minnesota households are cost burdened, 59 percent of households earning less than $50,000 are cost burdened.[14] In addition, with their limited resources, they are more likely to lack options for safe, stable, and affordable housing with access to opportunities.

For example, many low- and moderate-income households currently have a difficult time qualifying for mortgages and taking advantage of low prices and interest rates. Lenders and servicers are extremely cautious about extending credit in a time of significant regulatory change and uncertainty. For example, homebuyers without high credit scores have struggled to obtain mortgages. Analysts with the Federal Reserve Bank found that in a recent 18-month period, mortgage originations for home purchases declined by 50 percent for borrowers with credit scores between 620 and 680 and by 15 percent for borrowers between 680 and 720. The change for borrowers with higher scores was minimal.[15]

The current credit environment coupled with the foreclosure crisis has hit households of color or Hispanic ethnicity particularly hard. The homeownership disparity in Minnesota (the percentage of white households that own their homes compared with the percentage of households of color or Hispanic ethnicity that own their homes) increased 7.3 percentage points between 2008 and 2011. As a result, Minnesota now has the largest disparity in the country, with 77.5% of white households owning their home and only 38.8% of other households owning their own home. This disparity is particularly large for African-American/black households, with a homeownership rate of just 24.0%.[16]

Developing effective ways of serving people of color or Hispanic ethnicity is critically important. They often face barriers and impediments to housing options and choices, and Minnesota Housing needs to work to remove such barriers and provide equitable opportunities. In addition, Minnesota is becoming more diverse. The share of the state's population that is of color or Hispanic ethnicity is expected to rise from 17 percent today to 25 percent in 2035.[17]

With respect to housing choices and options, homelessness is a worst-case scenario. People experiencing homelessness find themselves in a situation where they have no housing options at all. Unfortunately, the situation has been getting worse in Minnesota with the slow recovery from the Great Recession. The number of people experiencing homelessness in Minnesota has been increasing.

- 7,751 in 2006,
- 9,664 in 2009, and
- 10,214 in 2012.[18]

On the positive side, where Minnesota has focused its attention (chronic homelessness and homeless veterans) the number has declined. Nevertheless, the number of people experiencing homelessness has increased for other segments of the homeless population, such as children.

Providing affordable housing options for seniors will also be a growing challenge. Between 2010 and 2020, the State Demographer's Office expects the senior population in Minnesota to grow by 42 percent. As the population ages, providing affordable housing options that can be combined with various levels and types of health and support services in various settings will be critical.

Responding to Current Challenges

Minnesota Housing's 2013-15 Strategic Plan is well designed to guide the Agency's 2014 work to finance affordable housing options in the current environment. The plan has five strategic priorities:

- Promote and support successful homeownership
- Prevent foreclosures and support community recovery
- Preserve federally-subsidized rental housing
- Address specific and critical needs in rental housing markets
- Prevent and end homelessness

These priorities cover each of the key challenges that the Agency faces in 2014.

<u>Promote and Support Successful Homeownership</u>

Given reduced access to mortgage products and increased homeownership disparities, the Agency's work is more important than ever to assist low- and moderate-income households to become successful homeowners, particularly those facing barriers and impediments in the current market. In 2014, Minnesota Housing will:

- *Continue to provide low-interest mortgages with enhancements (such as down-payment assistance.*

  To support successful homeownership for households not adequately served by the private market, the Agency needs to access capital at a low cost in the financial markets and provide mortgage products that meet their needs. The program and financing changes that Minnesota Housing has made in the last year, which includes expanded mortgage options for current homeowners to purchase their next home or refinance their current home and expanded availability of loans for down payment and closing costs, has placed the Agency in a strong position to carry out its work.

- *Develop strategies to effectively deliver its products and services in a rapidly changing housing market, real estate finance system, and regulatory environment.*

  Minnesota Housing does not directly originate or service its single-family mortgage loans. It relies on its private sector partners, who face a challenging regulatory environment. As a result of the housing and foreclosure crisis, the United States is implementing a wide range of lending regulations to prevent future crises. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act created the Consumer Financial Protection Bureau, which has the responsibility for preventing predatory lending, clarifying mortgage paperwork, and reducing incentives for mortgage brokers to push homebuyers into more expensive loans. As part of their responsibilities, they are issuing a range of rules and regulations, including the Ability-to-Repay and Qualified Mortgage Rule, the Loan Originator Compensation Rule, and others.

  These rules are creating new responsibilities, risks, and uncertainties for lenders. For example, the Ability-to-Pay and Qualified Mortgage Rule will help determine underwriting standards for mortgages, which will include a maximum debt-to-income ratio of 43 percent (a borrower's total debt payments cannot exceed 43 percent of his or her income). While loans originated under housing finance agency programs (including Minnesota Housing) are exempt from the rule, lenders are apprehensive about originating any loans not compliant with the rule. For example, a lender may originate a loan believing it will be purchased under Minnesota Housing's mortgage program only to find out that it does not meet program requirements and cannot be purchased. In this scenario, the lender is left holding a mortgage that is not compliant with the Qualified Mortgage Rule, opening the lender to undesirable risks and liabilities.

Minnesota Housing needs to better understand its lender partners' responsibilities and risks in the current regulatory environment and develop ways for the Agency to work with them to overcome their uncertainties and concerns when originating Minnesota Housing mortgages in this uncertain regulatory environment.

- *Maintain a 22 percent level of Minnesota Housing's first-time borrowers being households of color or Hispanic ethnicity to reduce homeownership disparities.*

  Estimates indicate that between 20 to 26 percent of renter households in Minnesota that are income eligible for Minnesota Housing mortgages are households of color or Hispanic ethnicity.[19] If Minnesota Housing lends to households of color or Hispanic ethnicity at this percentage, it will have no disparities in its lending. Between 2009 and 2012, the Agency's actual percentage has been between 22 percent (in times of higher lending volume) and 31 percent (in times of lower lending volume).

  In the current regulatory environment, it will be a challenge to maintain the 22 percent goal. For example, loan product and investor credit overlays and implementation of new regulations may impact the Agency's ability to serve low- to moderate-income borrowers. Households of color or Hispanic ethnicity will require special attention because larger proportions of these households have lower incomes. Minnesota Housing will need to develop implementation strategies that proactively overcome these regulatory barriers.

- *Continue to support the Minnesota Homeownership Center and its Emerging Market Homeownership Initiative (EMHI).*

  Starting in 2004, Minnesota Housing worked in partnership with Fannie Mae, the Federal Reserve Bank of Minneapolis, lenders, other government entities, real estate professionals, community groups, housing educators and counselors, non-profit housing providers, and housing advocates to create a collective business plan to increase homeownership opportunities in Minnesota's "emerging markets" (i.e. households of color or Hispanic ethnicity). The economic and housing crisis of the last six years and its fallout has created substantial hurdles for the initiative, but it has also made the work of the initiative more important than ever. The initiative now resides as a program of the Minnesota Homeownership Center.[20] Minnesota Housing strongly supports this work and will elevate its visibility and impact in the coming year.

- *Implement a new $10 million Targeted Mortgage Opportunity Program to provide sustainable first-mortgage (or equivalent) financing opportunities for households facing barriers to credit, particularly emerging market households (households of color or Hispanic ethnicity).*

  Minnesota Housing's Home Mortgage Loans are underwritten by the Agency's lender partners using mortgage-industry-accepted standards. As discussed above, these standards may be placing barriers in front of some potential borrowers that Minnesota Housing considers credit worthy. To address this, the Agency will allocate $8 million of Pool 2 funds for a first-mortgage loan pool. Any qualifying borrower can participate in the program, but there will be special marketing for emerging market homebuyers. The loan pool would be marketed through collaborative efforts with organizations that work closely with and/or provide outreach to emerging market populations. As part of this effort, the Agency will work with designated organizations to assure successful homeownership as well as household stability through intensive homeowner and financial literacy training. It is anticipated that loans originated under this pool will be underwritten pursuant to concessionary standards to be developed and, as a result, $2 million will be provided from the Agency's Pool 3/Foundation to serve as a risk pool to reimburse Pool 2 for any losses it may incur under this program. The Agency is still working on the details of the program and how it will operate in the current regulatory environment.

- *Implement a new $500,000 Enhanced Financial Capacity Initiative for intensive homeowners and financial literacy training to increase the financial capacity of potential homeowners, particularly emerging market households.*

  The Agency's strategy for increasing sustainable homeownership opportunities for low- and moderate-income Minnesotans has called for providing and, in some cases, mandating that certain homeowners receive comprehensive homeowner training. In fact, Minnesota has one of the best statewide homeowner training infrastructures in the country through the "homeownership advisors network" that has been developed by the Minnesota Homeownership Center.

  Recently, many community service providers have been developing approaches to reaching emerging market homeowners by supplementing traditional homeowner training with financial literacy and case management services to enhance the probability of both family stability and sustainable homeownership. Minnesota Housing will support these expanded efforts by working with existing organizations, the Minnesota Homeownership Center, and organizations with a high emerging market client-base that have an affinity for providing such services. This effort will be linked with the Targeted Mortgage Opportunity Program discussed previously.

- *Implement a targeted home improvement initiative to provide reduced interest rates on home improvement loans to help households with incomes in the middle of the low-to-moderate income spectrum.*

  Minnesota Housing currently has two single-family property rehabilitation programs. The Home Improvement Loan Program provides amortizing loans to households with incomes up to $96,500, which is 115% of area median income. In 2012, the median income of borrowers was $61,000. In contrast, the Rehabilitation Loan Program provides deferred (and potentially forgivable) loans to very-low-income homeowners needing to rehabilitate their homes to improve safety, livability, or energy efficiency. The income limit for this program varies by household size and is $22,250 for a three-person household. In 2012, the median income of borrowers was just $14,000.

  This initiative will target households with incomes between those served by the two existing programs. The income limit for the initiative will be 80 percent of area median income, and the program will focus on communities with lower-income residents and older housing stock. Under the initiative, the Agency will provide $500,000 of Pool 3/Foundation funds to write down the interest rates (from the rates charged by the regular Home Improvement Loan Program) for about 200 borrowers. The initiative will assist these households in maintaining their homes and succeeding as homeowners by providing more affordable loans for needed repairs.

Prevent Foreclosures and Support Community Recovery

As the foreclosure crisis continues, but with fewer new foreclosures, communities are starting to recover. To support the recovery process, Minnesota Housing is providing communities across the state with funds for housing investments. Many of the communities heavily hit by the housing and economic crises have a combination of low-income residents, older-housing stock, and/or large price declines. These are the communities most likely to lack the private investment needed for recovery. Thus, investments from Minnesota Housing are critical. In 2014, Minnesota Housing will:

- *Continue funding homebuyer and foreclosure counseling through the Homeownership Education, Counseling, and Training (HECAT) program to support successful homeownership and prevent foreclosures.*

  This is the core work of the Agency's prevention efforts. Minnesota's counseling network developed by the Minnesota Homeownership Center and financially supported by Minnesota Housing and other partners is considered one of the best in the country. Of the households seeking foreclosure counseling, 47 percent avoid foreclosure, with 90 percent of those households staying in their homes.[21]

- *Continue making foreclosure mitigation a priority in selecting developments for funding.*

  Under the Agency's process for selecting developments for funding under the multifamily RFP/tax-credit programs and the single-family Community Homeownership Impact Fund, the Agency prioritizes developments involving foreclosed properties and/or any housing investments in communities heavily impacted by the foreclosure crisis.

- *Implement the newly refined community-recovery selection criteria under the Single-Family Division's Community Homeownership Impact Fund to direct resources to communities with a combination of lower-income residents, older housing stock, and/or large home price declines.*

  This new criterion is intended to supplement and complement the foreclosure criterion discussed in the previous bullet. If a community has both (1) a significant number of foreclosures and (2) multiple community-need characteristics (lower-income residents, older-housing stock, and/or large price declines), it will get selection credit under both the foreclosure and community-recovery criteria.

  Minnesota Housing also recognizes that some communities need to recover from crises that pre-dated or happened outside the foreclosure crisis. Thus, regardless of foreclosures, communities with multiple community-need characteristics will also get selection credit under the community-recovery criterion.

Preserve Federally-Subsidized Rental Housing

Minnesota has more than 60,000 units of rental housing that have received or currently receive federal assistance to keep them affordable. These properties are located throughout the state, in large and small communities alike. The affordable housing stock is an essential part of communities' infrastructure, and its preservation is critical to communities' continued vitality. As these properties age, or as the subsidy contracts and regulatory agreements expire, there is a risk that these units may be lost due to physical deterioration or diminished capacity of the ownership entity. There is additional risk that some properties may convert to market rate housing and no longer be affordable for low income residents.

Thirty-one thousand (31,000) of these affordable housing units are federally subsidized through the Section 8 program. Section 8 housing is among the most affordable housing available because the tenant is required to pay only 30% of household income towards rent. The federal government makes up the difference between the tenant's contribution and an agreed upon contract rent. This is a critical benefit because the median income of Section 8 households is just $11,000. Another 7,000 privately-owned affordable housing units are federally subsidized through USDA Rural Development.

The Section 8 and USDA Rural Development portfolios were developed primarily from the 1960s to the 1980s. Due to the age of the housing stock, rents may not be able to keep up with the physical demands of the properties. Large injections of capital are needed to make physical improvements so that the properties can remain intact and affordable for decades into the future. Funding is used to ensure that the health, safety and quality of this critical affordable housing stock are maintained for its low income residents well into the future. There are currently over 9,200 units of privately-owned, federally-assisted housing that have not had significant capital improvements for at least the past 15 years. Based on current preservation resources and average funding levels we could meet the needs of 20 percent of these units over the next 5 years.

In 2014, Minnesota Housing will:

- *Implement a revamped preservation criterion for selecting rental projects for funding, which will make it more objective, transparent, systematic, and data driven.*

  Under the new criterion, projects will be evaluated at three levels of preservation need: (1) imminent risk, (2) high risk, (3) stabilization. The classification criteria are:

  1. Imminent risk:
     a. Ability to leave the program (prepayment/opt-out/mortgage-maturity) within three years;
     b. Located in either a job or household growth area;
     c. Documented evidence of market conversion potential:
        i. Significant rent differential between the property's current rents and market-rate rents, and
        ii. Low vacancy rate for comparable market-rate properties; AND
     d. Documented evidence that property could command market-rate rents.
  2. High risk:
     a. Ability to leave the program within six years;
     b. Located in a community with either:
        i. A rent burdened population, or
        ii. Job or household growth; AND
     c. Documented evidence of risk – either:
        i. Substantial physical needs identified by a third party, or
        ii. Ownership change needed due to deteriorating capacity.
  3. Stabilization:
     a. 15 or more years since most recent loan closing or tax credit,
     b. Operating feasibility shows duration of at least another 20 years, and
     c. Support of Interagency Stabilization Group.

To get funding, stabilization projects must also have funding commitments from federal, local, or philanthropic organizations; have affordable rents for the lowest income groups; and be cost effective.

- *Refocus Agency efforts to be more proactive in providing financial resources to preserve federally-subsidized rental housing.*

  The stabilization category discussed in the previous bullet is representative of this approach. The Agency will work proactively with property owners and managers before emerging needs become a crisis and the property falls into the high or imminent risk category.

The Agency will also monitor the loss of Section 8 Housing Choice Vouchers (HCVs), which have occurred as a result of the federal sequestration and related budget cuts. Minnesota Housing has been told that virtually all agencies administering HCVs in Minnesota have stopped reissuing them when clients leave the program. Each month there are fewer households assisted. Fewer vouchers in use may lower the baseline for federal renewal funding for the next year, creating a downward spiral in funding. Consequently, some parties have asked the Agency for a one-time supplement to federal HCV funding to preserve or stabilize the number of vouchers in use in order to maintain federal HCV funding going into the future. Minnesota Housing will investigate the issue further to gain a better understanding of: (1) the impact that an Agency investment in the HCVs would have on future federal funding, (2) how the investment would be administered, and (3) the longer-term expectations and precedents created by this type of investment. In addition, the Agency will investigate alternative ways to address the loss of HCVs, which could include funding additional rental assistance under the Housing Trust Fund. Based on the results of this assessment, Agency staff may ask for an amendment to the 2014 AHP later in the year.

<u>Address Specific and Critical Needs in Rental Housing Market</u>

The types of affordable housing opportunities needed in each community across the state are different. Minnesota Housing is taking steps to provide opportunities tailored to those needs. While this strategic priority focuses on rental markets, the following activities apply to both renter and homeowner needs and programs. From a rental perspective, these activities will a play a critical role in implementing this strategic priority. During 2014, the Agency will:

- *Conduct ongoing conversations with individual communities about their housing and development needs.*

  In the current year, the Agency began a series of Community and Housing Dialogues in communities across the state. These dialogues will continue in 2014. Areas of discussion with these communities could include: (1) workforce housing, (2) housing for seniors, (3) rental properties with large units (multiple bedrooms) for large families, (4) homelessness, (5) housing for people with disabilities, (6) community recovery, and (7) rental shortages, as reflected by low vacancy rates.

- *Make communities more aware of the housing resources available from Minnesota Housing and how communities can access them to meet their unique local needs.*

  As this Affordable Housing Plan documents, Minnesota Housing provides a full spectrum of programs to finance housing to meet a wide range of needs. To make sure communities have the opportunity to address their needs, Minnesota Housing will increase and refine its efforts to make communities aware of the program options available and how to access them.

- *Implement the Governor Dayton's Housing-Jobs initiative to promote economic development in communities needing workforce housing.*

  During the 2013 Legislative Session, Minnesota Housing received $10 million for the Governor's Housing-Jobs Initiative, which will help finance affordable housing in the parts of the state where employers are poised to expand but there is not enough housing to meet the needs of the local workforce. Minnesota Housing will allocate funds to both homeowner and renter projects under this program.

- *Continue to assist seniors so that they can age in place and remain in their communities.*

  The Agency will pursue opportunities to better coordinate housing programs with human services programs that serve the elderly. Programs and policies will be refined to best support community-based housing for seniors and address housing gaps for renters and homeowners.

  In the last year, the Agency has issued three reports on housing for seniors:

  - Profile of Older Households in Minnesota,
  - Housing Assistance for Older Minnesotans, and
  - Affordable Housing and Supportive Services for Older Adults in Rural Communities Demonstration (recommendation to the Bipartisan Policy Center's Housing Commission).

Prevent and End Homelessness

With the sluggish recovery from the Great Recession, the number of people experiencing homelessness continues to grow. Homelessness occurs when people and families have no housing choices or options at all. Serving this vulnerable population is a priority of the Agency. In 2014, Minnesota Housing will:

- *Carry out ongoing core work to address homelessness, which includes financing supportive housing for people experiencing long-term homelessness, homelessness prevention assistance, rent assistance, and operating subsidies.*

  As Table 1 shows (presented earlier in the AHP), Minnesota Housing has a whole category of programs to prevent and end homelessness. Carrying out this core work will remain a priority of the Agency.

- *Reinvigorate the Minnesota Interagency Council on Homelessness (MICH), which will develop a state plan to prevent and end homelessness.*

  Homelessness is not just a housing issue. It affects the work of many state agencies. Individuals and families experiencing homelessness not only need housing options from Minnesota Housing but also may need social services and other support from the Department of Human Services, employment services from the Department of Employment and Economic Development, and financial aid and other support from the Office of Higher Education and Department of Education. As ex-offenders transition out of correctional facilities, they need stable and affordable housing options, without which they have a higher risk of becoming homeless and/or ending up back in prison. Homelessness and mobility are major barriers to educational success for school-age children.

In the last year, the 11 state agencies that make up MICH committed to the goal of preventing and ending homelessness. For the upcoming year, the center piece of MICH's work will be the creation of Minnesota's Plan to Prevent and End Homelessness (which will be a strategic document) and accompanying two-year Interagency Action Plans to implement the strategic plan. If Minnesota is to prevent and end homelessness, it will require the coordinated and diligent effort and resources of all the agencies working together.

- *Implement new rent assistance for ex-offenders transitioning out correctional institutions and highly-mobile families with school-age children.*

  Recognizing the cross-agency linkages, Governor Dayton created these across-agency initiatives. The 2013 Legislature appropriated, under the Housing Trust Fund program, $2 million for highly-mobile-families with school-age children and $1 million for ex-offenders.

- *Implement the Section 811 demonstration to provide additional housing opportunities for people with disabilities.*

  Section 811 project-based rent assistance is a new federal demonstration program with the goal of increasing the number of integrated, cost-effective, and permanent supportive housing units for people with disabilities. Minnesota has been selected, through a competitive federal process, to receive funds under this program. This program will be carried out in partnership with the Department of Human Services and start in 2014, assuming no implementation delays.

<u>Multiple Priority Activities</u>

To provide low- and moderate-income households with affordable housing options with access to opportunities and to foster strong communities, Minnesota Housing will carry out broad-based activities that span multiple program priorities. In 2014, the Minnesota Housing will:

- *Continue to use and refine its scoring criteria for selecting developments for funding (single-family and multifamily).*

  These selection criteria try to balance and achieve multiple policy goals simultaneously, including:
  - Location-based criteria that support access to opportunities:
    - Economic Integration (developments in high and middle-income neighborhoods – which are often associated with better schools, lower crime, and other opportunities),
    - Proximity to transit (which provides low-cost transportation and overall access to opportunities, such as jobs and education), and
    - Proximity to jobs and job growth (which not only provides access to employment but also fosters economic development by providing workforce housing);
  - Location-based criteria that strengthen communities and support recovery:
    - Communities heavily impacted by foreclosures, and
    - Communities with low-income residents, older housing stock, and/or large home-price declines;
  - Criteria that target resources to special populations:
    - People experiencing homelessness, and

        - Extremely low-income households (most notably those living in project-based Section 8 properties that need to be preserved); and
    - Criteria reflecting projects that are efficient and cost-effective:
        - Cost containment (low development costs per unit),
        - Leverage (funding from other sources), and
        - Readiness-to-proceed (shovel ready).

- *Work with other state agencies on cross-cutting issues that provide low- and moderate-income households with opportunities.*

  Previous discussions in this Plan mentioned several of these efforts, including the Minnesota Interagency Council on Homelessness, work with DEED on the Housing-Jobs Initiative, and work with the Departments of Education, Correction, and Human Services on providing rent assistance to highly-mobile families, ex-offenders, and people with disabilities. To provide all Minnesotans, but vulnerable populations in particular, with opportunities for success, state agencies need to work better together.

Funding by Strategic Priority

Table 3 shows Minnesota Housing's funding by strategic priority. The first two sets of priorities are "comprehensive priorities" because almost all of the Agency's funding can be allocated between the two of them. The comprehensive rental category combines two priorities – preserving federally subsidized housing and addressing specific and critical needs in rental housing markets. The last two priorities are "targeted" because only a subset of the Agency's funding is allocated to them. (It should be noted that the same funds can fulfill more than one priority. In addition, the program areas in the shaded boxes are sub-components of the overall program listed above the box.)

As the last line of Table 3 shows, Agency funding is split roughly 59/40 between homeownership and rental housing. The Agency's expansion of its homebuyer and refinancing programs over the last couple of years has led to a larger share of funds going to homeownership. In addition, homeownership programs generally require higher levels of funding per housing unit or household. As will be discussed in the following section, the 2014 AHP actually supports more renter households than homeowners.

The $32 million projected for preventing and ending homelessness accounts for 4 percent of the overall budget. These programs include rental production efforts that finance the development of supportive housing units for people experiencing long-term homelessness. Homeless programming also includes Agency rent assistance (Housing Trust Fund, Ending Long-Term Homelessness Initiative Fund, and Bridges) targeted to vulnerable populations that are homeless or at-risk of becoming homeless, including people with extremely low incomes and/or serious mental illnesses. The Agency also funds prevention efforts through the Family Homeless Prevention and Assistance Program (FHPAP), which provides short-term assistance for services and housing payments. Finally, under HOPWA, the Agency provides grants to meet the housing needs of people with AIDS, HIV-positive status, or a related disease.

In 2013, the Agency projects that it will invest approximately $187 million to prevent foreclosures and support community recovery. On the prevention side, the Agency expects to invest about $526,000 on foreclosure counseling through the HECAT program. In addition, during the 2013 AHP, Minnesota Housing committed nearly $1 million of National Foreclosure Mitigation Counseling (NFMC) funds from the federal government for foreclosure counseling. While these funds were committed under the previous AHP, they will support some 2014 activity. If there is another round of NFMC funding during the 2014 AHP, Minnesota Housing will apply again. Minnesota has been one of the most successful states in securing and using NFMC funds. Since the creation of the program and 7 rounds of funding, the state has received $15.6 million, which is the third highest among states. Only California and Pennsylvania, two more populous states, have received more.

The agency will potentiall invest over $186 million for the purchase and rehabilitation of foreclosed properties or the construction, purchase, or rehabilitation of any property in a zip code that has been heavily impacted by the foreclosure crisis. The last category accounts for the majority of the expected investments. The Agency encourages and incents investment in high impact zip codes through several mechanisms, which include awarding selection credit in the RFP process to developments located in these zip codes.

The split of program funding in Table 3 by strategic priority is not an actual allocation, but a projection based on historical investment patterns with adjustments for recent program changes. The actual splits will be made as investment decisions are made by homebuyers, homeowners, developers, and the Agency. Thus, Table 3 provides a general picture of how the Agency expects the funds to be invested.

Table 3: 2014 Funding by Strategic Priority

			Comprehensive Priorities		Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs	Homelessness	Community Foreclosure Recovery
	Homebuyer and Home Refinance	**$431,338,750**	**$431,338,750**	**$0**	**$0**	**$158,362,706**
1	Home Mortgage Loans	$376,000,000	$376,000,000			$135,968,426
2	Targeted Mortgage Opportunity Program	$10,000,000	$10,000,000			$5,325,670
3	Mortgage Credit Certificates (MCC)	$25,600,000	$25,600,000			$9,257,425
4	Deferred Payment Loan Program	$4,000,000	$4,000,000			$1,714,286
5	HOME HELP	$3,400,000	$3,400,000			$2,136,398
6	Monthly Payment Loan Program	$7,000,000	$7,000,000			$2,825,000
7	Single Family Interim Lending	$1,522,750	$1,522,750			$609,100
8	Habitat for Humanity Initiative	$2,000,000	$2,000,000			N/A
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,316,000	$1,316,000			$526,400
9a	HECAT - Enhanced Financial Capacity Initiative	$500,000	$500,000			$0
	Home Improvement	**$20,930,000**	**$20,930,000**	**$0**	**$0**	**$3,621,855**
10	Home Improvement Loan Program	$13,830,000	$13,830,000			$2,385,407
10a	Targeted Home Improvement Interest Write-Down	$500,000	$500,000			$86,240
11	Rehabilitation Loan Program	$6,600,000	$6,600,000			$1,150,207
	Rental Production- New Construction and Rehabilitation	**$86,000,963**	**$0**	**$86,000,963**	**$2,846,250**	**$12,106,525**
12	Multifamily Amortizing First Mortgages	$50,000,000		$50,000,000	$1,912,500	$7,310,290
12a	Low and Moderate Income Rental (LMIR)	$40,000,000		$40,000,000	$1,530,000	$5,848,232
12b	MAP Lending (Multifamily Accelerated Processing)	$10,000,000		$10,000,000	$382,500	$1,462,058
13	Flexible Financing for Capital Costs (FFCC)	$4,500,000		$4,500,000	$114,750	$657,926
14	Low-Income Housing Tax Credits (LIHTC)	$8,201,743		$8,201,743	$666,000	$1,199,142
15	Affordable Rental Preservation	$20,102,939		$20,102,939	$153,000	$2,939,166
15a	*Affordable Rental Investment Fund - Preservation (PARIF)*	*$12,722,070*		*$12,722,070*	*$96,825*	*$1,860,040*
15b	*HOME HARP*	*$7,380,869*		*$7,380,869*	*$56,175*	*$1,079,126*
16	Housing Trust Fund (Capital)	$0		$0	$0	$0
17	Publicly Owned Housing Program (POHP)	$58,281		$58,281		$0
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$3,138,000		$3,138,000		
	Rental Assistance Contract Administration	**$183,890,970**	**$0**	**$183,890,970**	**$0**	**$0**
19	Section 8 - Performance Based Contract Administration (PBCA)	$113,000,000		$113,000,000		
20	Section 8 - Traditional Contract Administration (TCA)	$70,000,000		$70,000,000		
21	Section 236	$890,970		$890,970		

Funding by Strategic Priority • 09/26/2013

			Comprehensive Priorities		Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs	Homelessness	Community Foreclosure Recovery
	Resources to Prevent and End Homelessness (Non-Capital)	**$29,020,389**	**$0**	**$29,020,389**	**$29,020,389**	**$0**
22	Housing Trust Fund (HTF)	$14,407,373		$14,407,373	$14,407,373	
23	Ending Long-Term Homelessness Initiative Fund (ELHIF)	$3,420,271		$3,420,271	$3,420,271	
24	Bridges	$3,111,500		$3,111,500	$3,111,500	
25	Section 811 Demonstration	$80,000		$80,000	$80,000	
26	Family Homeless Prevention and Assistance Program (FHPAP)	$7,862,000		$7,862,000	$7,862,000	
27	Housing Opportunities for Persons with AIDS (HOPWA)	$139,245		$139,245	$139,245	
	Rental Portfolio Management	**$6,500,000**	**$0**	**$6,500,000**	**$0**	**$0**
28	Asset Management	$3,000,000		$3,000,000		
29	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,500,000		$3,500,000		
	Multiple Use Resources	**$33,568,827**	**$17,431,163**	**$10,396,744**	**$191,250**	**$12,792,529**
30	Economic Development and Housing/ Challenge (EDHC)	$27,827,907	$17,431,163	$10,396,744	$191,250	$12,792,529
30a	*Request for Proposals (RFP) - Multifamily and Single-Family*	*$17,327,907*	*$6,931,163*	*$10,396,744*	*$191,250*	*$4,292,529*
30b	*Twin Cities Community Land Bank / Family Housing Fund*	*$8,500,000*	*$8,500,000*			*$8,500,000*
30c	*Community Owned Mobile Home Parks*	*$2,000,000*	*$2,000,000*			
30d	*Housing Infrastructure Bond*	*$0*	*$0*			
31	Technical Assistance and Operating Support	$2,740,920	TBD	TBD	TBD	TBD
32	Non-Profit Capacity Building Loan Program	$1,000,000	TBD	TBD	TBD	TBD
33	Strategic Priority Contingency Fund	$2,000,000	TBD	TBD	TBD	TBD
	Other	**$3,591,115**	**$0**	**$0**	**$0**	**$0**
34	Administrative Expenses HOME	$592,222	TBD	TBD	TBD	TBD
35	Manufactured Home Relocation Trust Fund	$1,279,536	TBD	TBD	TBD	TBD
36	Flood Disaster	$0	TBD	TBD	TBD	TBD
37	Disaster Relief Contingency Fund	$1,719,357	TBD	TBD	TBD	TBD
	Total	$794,841,013	$469,699,913	$315,809,066	$32,057,889	$186,883,615
	Percentage Split *		59%	40%	4%	24%

Shaded activities are sub-allocations of the program above.
* The sum of homeownership and rental priorities do not equal the total funding because $9.3 million is not allocated to a priority.

Household and Unit Projections

Table 4 shows that Agency's forecast of how many households or housing units will be assisted. As the shown in the last line of the table, Minnesota Housing expects to assist roughly 65,000 households or units. Under the AHP's projections, homeownership programs account for about 59 percent of the funds (see Table 3) but only 26 percent of the households/units (see Table 4). In contrast, rental programs account for 40 percent of the funds but 74 percent of the households/units. This shift from homeowners to renters (when the analysis changes from funding levels to households assisted) occurs because homeownership programs require more resources per household. A typical Home Mortgage Loan is $135,000. In contrast, a typical annual rent subsidy is $6,000. The homelessness priority accounts for 4 percent of the funds, compared with 21 percent of the households and units assisted. Foreclosure recovery accounts for 24 percent of the funds, compared with 10 percent of households/units.

Table 4: 2014 Forecast of Assisted Households or Housing Units by Program and Strategic Priority

			Comprehensive Priorities		Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs	Home-lessness	Community Foreclosure Recovery
	Homebuyer and Home Refinance	**15,420**	**15,420**	**0**	**0**	**5,991**
1	Home Mortgage Loans	2,785	2,785			1,007
2	Targeted Mortgage Opportunity Program	44	44			24
3	Mortgage Credit Certificates (MCC)	*Part of Home-Mortgage and Targeted-Mortgage Production*				
4	Deferred Payment Loan Program					
5	HOME HELP					
6	Monthly Payment Loan Program					
7	Single Family Interim Lending	*Part of EDH/Challenge*				
8	Habitat for Humanity Initiative	24	24			N/A
9	Homebuyer Education, Counseling, & Training (HECAT)	12,400	12,400			4,960
9a	HECAT - Enhanced Financial Capacity Initiative	167	167			0
	Home Improvement	**1,132**	**1,132**	**0**	**0**	**196**
10	Home Improvement Loan Program	838	838			145
10a	Targeted Home Improvement Interest Write-Down	Part of Home Improvement Loans				
11	Rehabilitation Loan Program	293	293			51
	Rental Production- New Construction and Rehabilitation	**2,518**	**0**	**2,518**	**85**	**336**
12	Multifamily RFP/HTC/Pipeline Production (including EDHC)	2,296		2,296	85	336
13	Low and Moderate Income Rental (LMIR)	*Part of RFP/HTC/Pipeline Production*				
13a	MAP Lending (Multifamily Accelerated Processing)					
14	Flexible Financing for Capital Costs (FFCC)					
15	Low-Income Housing Tax Credits (LIHTC)					
16	Affordable Rental Preservation (PARIF and HOME)					
17	Housing Trust Fund (Capital)					
18	Economic Development and Housing /Challenge - MF RFP and Infrastructure Bonds					
19	Publicly Owned Housing Program (POHP)	13		13		
20	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	209		209		

			Comprehensive Priorities			Targeted Priorities	
		AHP Total	Successful Home-ownership	Rental Housing 1. Federal Preservation 2. Critical Needs		Home-lessness	Community Foreclosure Recovery
	Rental Assistance Contract Administration	**31,485**	**0**	**31,485**		**0**	**0**
21	Section 8 - Performance Based Contract Administration (PBCA)	18,833		18,833			
22	Section 8 - Traditional Contract Administration (TCA)	11,667		11,667			
23	Section 236	985		985			
	Resources to Prevent and End Homelessness (Non-Capital)	**13,884**	**0**	**13,884**		**13,884**	**0**
24	Housing Trust Fund (HTF)	2,383		2,383		2,383	
25	Ending Long-Term Homelessness Initiative Fund (ELHIF)	834		834		834	
26	Bridges	662		662		662	
27	Section 811 Pilot	28		28		28	
28	Family Homeless Prevention and Assistance Program (FHPAP)	9,828		9,828		9,828	
29	Housing Opportunities for Persons with AIDS (HOPWA)	149		149		149	
	Rental Portfolio Management	**433**	**0**	**433**		**0**	**0**
30	Asset Management	200		200			
31	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	233		233			
	Multiple Use Resources	**408**	**408**	**0**		**0**	**172**
32	Economic Development and Housing/ Challenge						
32a	Request for Proposals (RFP) - **Impact Fund Only**	260	260				104
32b	Twin Cities Community Land Bank/Family Housing Fund	68	68				68
32c	Community Owned Mobile Home Parks	80	80				0
32d	Housing Infrastructure Bonds - **Impact Fund Only**	0	0				0
33	Technical Assistance and Operating Support	N/A					
34	Non-Profit Capacity Building Loan Program	N/A					
35	Strategic Priority Contingency Fund	TBD	TBD	TBD		TBD	TBD
	Other	**86**	**86**	**0**		**0**	**0**
36	Administrative Expenses HOME	N/A					
37	Manufactured Home Relocation Trust Fund	TBD	TBD			TBD	
38	Flood Disaster	0					
39	Disaster Relief Contingency Fund	86	86				
	Total	65,366	17,045	48,320	0	13,969	6,694
			26%	74%		21%	10%

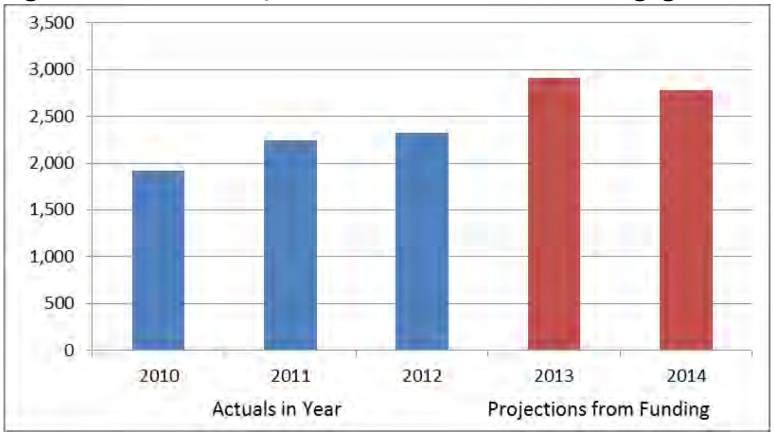
Table 4 shows some programs shaded in gray. With respect to the homebuyer programs, these programs support the Agency's home mortgage loans with enhancements, such as down-payment and closing cost loans. Because all the homes supported by these enhancements are also supported by the Agency's home mortgage loans, the table does not count the enhanced units in the total to avoid double counting. With respect to the rental production programs, funds from multiple programs often go into the same properties. A development could receive a first mortgage from LMIR, housing tax credits, and a deferred loan through the Economic Development and Housing/Challenge program. To avoid double counting, Table 4 presents all the rental units financed with these programs in combination.

The following graphs show the estimated number of households/units that will be assisted with 2014 funding in relation to the number of households/units assisted in previous years. The graphs are organized by the broad program categories and exclude activity related to disasters/floods, which are intermittent and not part of the Agency's baseline activity.

Homebuyer and Home Refinance Programs

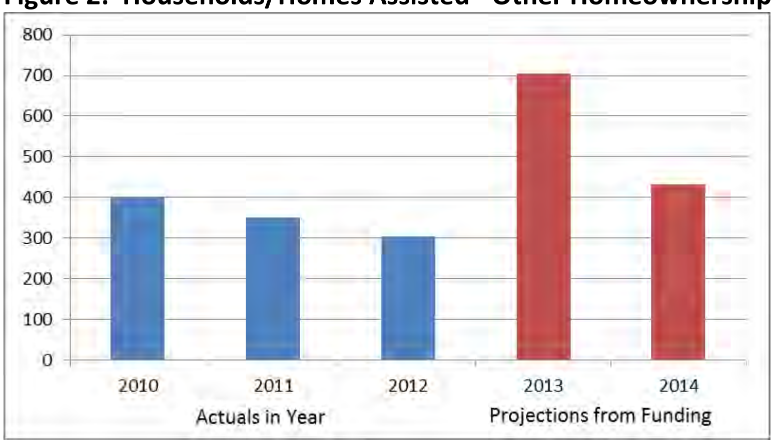
Figure 1 shows the Agency's production in home mortgage loans recovering after the housing market collapse in 2008. The large increase in production in 2013 reflects the expanded lending activity that the Agency is carrying out with its redesigned programs. While 2013 has been a very strong year for the Agency's home mortgage programs, production will likely fall a little short of the projected 2,900 loans.

Figure 1: Households/Homes Assisted - Home Mortgage Loan Program



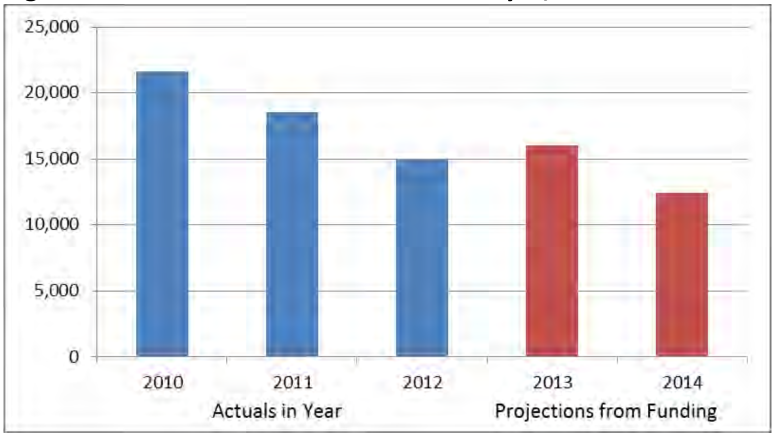
The large increase in other homeownership opportunities in 2013 (Figure 2) reflects a larger than typical Economic Development and Housing/Challenge budget for single-family RFP activities – which was supported by the availability of housing infrastructure bonds and Pool 3/Foundation funds. Production in 2014 will return to a more typical level. (The programs captured in Figure 2 include the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program, and Single Family Interim Lending.)

Figure 2: Households/Homes Assisted - Other Homeownership Opportunities



The decline in education and counseling assistance (Figure 3) largely reflects the reduced funding and need for foreclosure counseling as mortgage delinquency and foreclosure rates in Minnesota have declined since the peak of the foreclosure crisis. While the number of mortgage delinquencies and foreclosures has declined, there is still a critical need for these counseling resources.

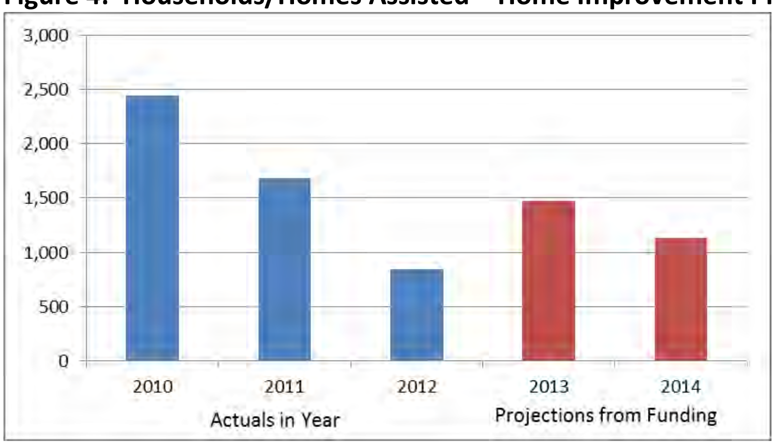
Figure 3: Households Assisted – Homebuyer/Homeowner Education and Counseling



Home Improvement Programs

Home improvement production (Figure 4) has been limited since the downturn in the economy in 2008. Production was high in 2010 because of federal stimulus funds that financed the Energy Saver Rebate program provided an incentive for energy efficiency improvements. The 2013 projection shown in the graph looks to be overly optimistic with the hope that production would have recovered more quickly. When 2013 is completed, production will likely be about 1,000 loans. (Figure 4 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

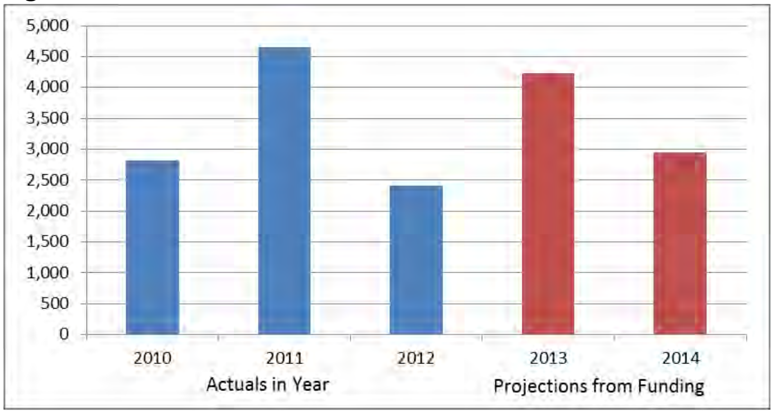
Figure 4: Households/Homes Assisted – Home Improvement Programs



Rental Production and Rental Portfolio Management

The varying availability and use of federal stimulus funds and state capital investments (general obligation and housing infrastructure bonds) has led to uneven rental production levels (new construction and rehabilitation) For example, bond financing for state capital investments was available in 2013, but will not be available in 2014. (Figure 5 captures all the programs in the rental production category, the multifamily portion of the Economic Development and Housing/Challenge program, and all the activity in the rental portfolio management category.)

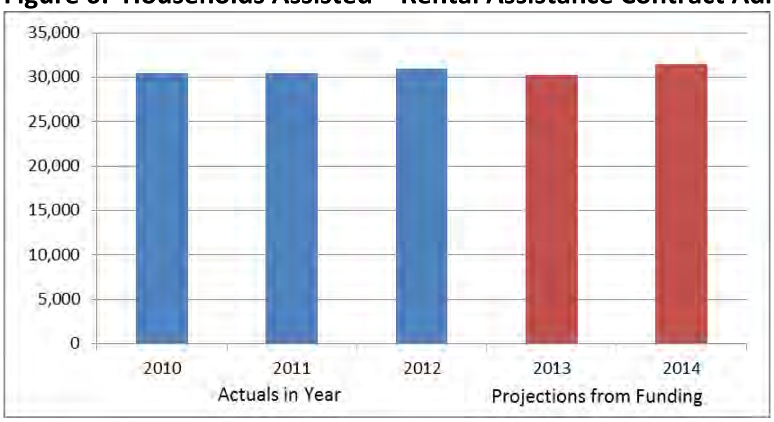
Figure 5: Units Assisted – Rental Production



Rental Assistance Contract Administration

As shown in Figure 6, activity in the Section 8 and 236 contract administration has been very steady over the last several years.

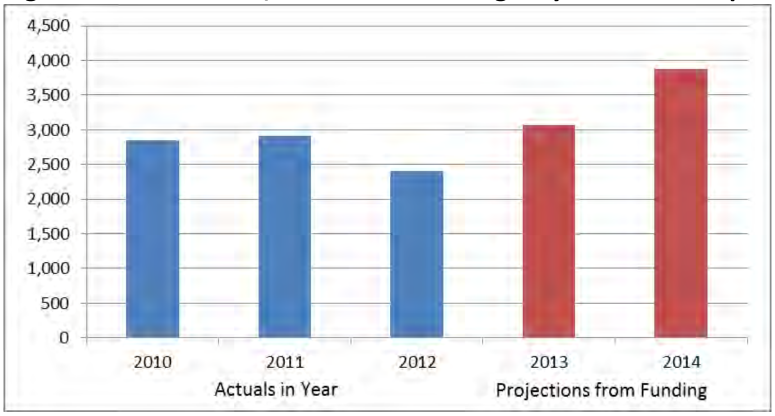
Figure 6: Households Assisted – Rental Assistance Contract Administration



Resources to Prevent and End Homelessness (Non-Capital)

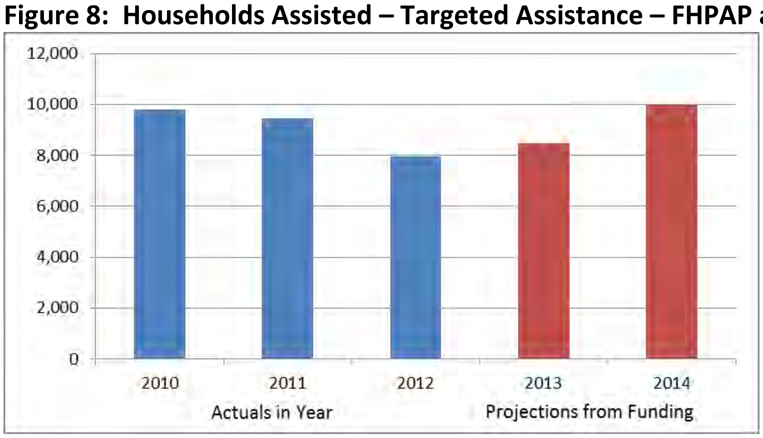
Activity under the Agency's rental and operating assistance programs (Housing Trust Fund, Ending Long-Term Homelessness Initiative Fund, and Bridges) has been relatively stable over the last few years. (See Figure 7.) There will be an increase in 2014 because the Legislature made available for the first time $3 million for rent assistance for highly mobile families with school-age children and for ex-offenders transitioning out of correctional facilities. In addition, the Legislature made available an additional $1.4 million for project-based rent assistance. (These funds will be split between state fiscal years 2014 and 2015.)

Figure 7: Households/Units Assisted – Agency Rental and Operating Assistance



The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and Housing Opportunities Program for Persons with AIDS (HOPWA) has been relatively steady (around 10,000). See Figure 8. Activity dropped in 2012 as a result of administrative complications related to the state government shutdown. The projected number of households assisted for 2013 (as shown in the graph) is probably too low. The assumed assistance per household used in the projections now appears to be too high. With a lower level of assistance per household, there are additional funds to serve more households. The 2014 level should be closer to the typical level.

Figure 8: Households Assisted – Targeted Assistance – FHPAP and HOPWA



Funding by Source

Table 5 shows the 2014 funding levels by source of funds.

Table 5: 2014 Funding by Source

	Original 2013 AHP	Proposed 2014 AHP
Federal Funds	$207,008,946	$207,185,049
State Appropriations	$73,754,883	$71,249,898
State Capital Investments (GO & Housing Infrastructure Bonds)	$35,500,000	$58,281
Bond Proceeds & Other Mortgage Capital *	$432,500,000	$441,600,000
Housing Investment Fund (Pool 2)	$64,500,000	$50,000,000
Housing Affordability Fund (Pool 3)	$23,677,869	$24,747,785
Total	$836,941,698	$794,841,013

* This includes funds for Mortgage Credit Certificates (MCCs). Previously, the AHP reported the bonding authority that was allocated for MCC use. The AHP now reports the MCC authority being used, which 25 percent less than the bonding authority (reflecting a 25 percent conversion rate). The MCC funding that was adopted in the 2013 AHP has been revised to reflect the lower converted amount.

Overall, 2014 funding from each source is quite similar to 2013, with one exception. The Legislature did not make any new general obligation or housing infrastructure bond proceeds available for Minnesota Housing. The $58,281 available in 2014 is unused general obligation bond proceeds from previous years. Behind the flat funding levels from each source, there are some offsetting changes.

- For 2014, the Legislature increased state appropriations for the Agency's regular programs, which largely offset $12.7 of disaster funds made available just for 2013.
- Overall in 2014, there is a $9 million increase in funding from bond proceeds and other mortgage capital. Behind this increase is a $26 million increase for Home Mortgage Loans and a $13 million increase for Mortgage Credit Certificates, which is partially offset by a $30 million decrease in multifamily amortizing mortgages.
- Behind the $14 million decrease in Pool 2 funding is: (1) a $10 million reduction in funding for LMIR; (2) a $6.5 million reduction for Home Improvement Loans; (3) the elimination of a $4 million contract-for-deed program in Greater Minnesota (the proposed program was not viable); (4) the addition of $8 million for a new Targeted Mortgage Opportunity Program (an effort to provide mortgage financing to households having trouble accessing credit in the current market, particularly households of color or Hispanic ethnicity); and (5) a $2 million increase for Monthly Payment Loans (amortizing loans for down-payment and closing-cost assistance).
- With increased earnings, Minnesota Housing can allocate more funding from Pool 3/Foundation.

To identify funds available under this plan by source, staff projected the resources that will be available to Minnesota Housing from each source during the year. The plan allocates funds from five primary sources as described below. The precise amount of some funding categories is known at the time the plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the year. Staff used various analytical approaches (including fund cash flow analysis) to project the amount of resources available for housing programs.

Federal Resources. There are two types of federal resources: (1) appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing, and (2) housing tax credits. For purposes of the plan, current funding levels are used for the HUD appropriations – Section 8/236, HOME, and Housing Opportunities for Persons with AIDS (HOPWA) – and will be adjusted once Congress has adopted the year's budget. The amount of federal housing tax credits is based on a per capita formula and may vary slightly each year.

State Appropriations. The amount of funding from the state is based on the 2014-15 general fund budget adopted by the 2013 Minnesota Legislature. The Agency generally splits the appropriations evenly between state fiscal years 2014 and 2015.

State Capital Investment. These funds come from the state capital budget (bonding bill) and include general obligation and housing infrastructure bond proceeds.

Agency Bond Proceeds and Other Mortgage Capital. Bond proceeds are generated by the issuance of tax-exempt bonds. Tax-exempt bond proceeds have historically been limited by the amount of new bonding authority made available to the Agency under a state allocation formula, the projected amount of bonds refunded over the next year, and an estimate of the amount of bonding authority contributed by cities and counties for issuance on their behalf. However, market conditions have made it difficult to fully utilize all of the available bonding authority. To access these under-utilized resources, the Agency has started issuing Mortgage Credit Certificates, which counts against the state's bonding authority. The Agency also has started selling some of its mortgage-backed securities on the secondary market to access attractively-priced private capital. In addition, in 2014, Minnesota Housing will be accessing a new source of mortgage capital for rental housing. The Agency recently became a MAP (Multifamily Accelerated Processing) lender through which Minnesota Housing originates FHA-insured mortgages that are financed through a third-party investor.

Agency Resources. Minnesota Housing generates resources from its lending activities and makes them available for investment in housing programs. Agency resources are currently categorized as follows:

- <u>Housing Investment Fund</u> (also known as "Pool 2"). The Housing Investment Fund's balance is set according to the net asset requirements and investment guidelines adopted by the Board in April, 2007 after review and confirmation with the rating agencies and the agency's cash flow projections. The level of funding that must be retained in Pool 2 is an amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3/Foundation) to be not less than the combined net assets of the same funds for the immediately preceding audited fiscal year end. The practical result of this requirement is to set the amount of current period earnings as an upper limit on the amount that can be annually transferred from Pool 2 to Pool 3. According to Board policy, the use of Pool 2 funds is limited to investment quality loans and investment grade securities as defined by the Agency. Most of the net assets in Pool 2 are already invested in housing loans, so it is the Pool 2 liquid assets and expected loan repayments that are available for budgeting in the Plan.

- <u>Housing Affordability Fund (also known as "Pool 3/Foundation")</u>. The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund above, and its balance is the net assets in excess of the required balances in Pools 1 and 2. The sources of ongoing funding for Pool 3 are transfers of a portion of current period earnings from Pool 2, combined with any repayments or prepayments from loans previously funded under Pool 3. This fund is more flexible than the Housing Investment Fund as it may be used for programs not resulting in amortizing, investment quality loans, including deferred loans and grants.

Notes

[1] A credit is used to offset 10 years of tax liability. Thus, a $100,000 tax credit will generate $1 million of tax breaks over the 10 years. In today's syndication market, credits can sell for 80 to 90 cents on the dollar, or higher.
[2] U.S. Department of Housing and Urban Development, Notice on Median Family Incomes for FY 2012 (December 1, 2011); http://www.huduser.org/portal/datasets/il/il13/Medians2013.pdf.
[3] Minnesota Housing analysis of data from the United State Census Bureau, *2011 American Community Survey.*
[4] Minnesota Housing, *Regional Distribution of Minnesota Housing Assistance* (August 2012); http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa_011777.pdf.
[5] Minnesota Department of Employment and Economic Development (DEED), *Local Area Unemployment Statistics* (Seasonally adjusted unemployment); http://www.positivelyminnesota.com/apps/lmi/laus/CurrentStats.aspx; accessed September 11, 2013.
[6] Minnesota Housing analysis of sheriff sales data from HousingLink.
[7] Minneapolis Area Association of Realtors, *Monthly Market Indicators* (June 2011 and June 2013); http://www.mplsrealtor.com/market.aspx; accesses July 31, 2013. To account for seasonality of prices, the analysis involves June to June comparisons.
[8] Marquette Advisors, *Apartment Trends* (4th Quarter 2009 and 2nd Quarter 2013).
[9] Minnesota Housing analysis of data from the United States Census Bureau, *2000 Decennial Census* and *2011 American Community Survey*. Incomes and costs are adjusted for inflation.
[10] Minnesota has 11 primary job classes, with 5 having an average weekly wage above $1,000 and six below $1,000. Four of the five higher-wages industries lost jobs over the last five years, with construction and manufacturing having the largest losses of all industries. In contrast, three of the six lower-wage industries gained jobs, with the largest gains in education and health services. Data from The Department of Employment and Economic Development's Quarterly Census of Employment and Wages (2007 and 2012).
[11] Minneapolis Area Association of Realtors, Monthly Market Indicators (June 2011 and June 2013); http://www.mplsrealtor.com/market.aspx; accesses July 31, 2013. To account for seasonality of prices, the analysis involves June to June comparisons.
[12] Freddie Mac, *Primary Mortgage Market Survey* (as reported by the Board of Governors of the Federal Serve System); http://www.federalreserve.gov/releases/h15/data.htm; accessed September 11, 2013.
[13] Marquette Advisors, Apartment Trends (1st Quarter 2011 and 2nd Quarter 2013).
[14] Minnesota Housing analysis of data from the United States Census Bureau*, 2011 American Community Survey*.
[15] Federal Reserve Governor Elizabeth A. Duke, *Comments on Housing and Mortgage Markets at the Mortgage Bankers Association's Mid-Winter Housing Finance Conference* (March 8, 2013); http://www.federalreserve.gov/newsevents/speech/duke20130308a.htm.
[16] Minnesota Housing analysis of data from the United States Census Bureau, *American Community Survey* (2008 and 2011).
[17] The current share is from the United States Census Bureau, *American Community Survey* (2011); and the 2035 figure is from Minnesota State Demographic Center, *Minnesota Population Projections by Race and Hispanic Origin, 2005 to 2035* (January 2009).
[18] Wilder Research, *Statewide Homeless Study Results* (October 25, 2012).
[19] The analysis applies to renter households with incomes from $25,000 up to program income limits for first-time homebuyers.
[20] For details see: http://www.hocmn.org/home/column-1/emhi-resources/.
[21] Minnesota Homeownership Center, *2012 Foreclosure Report*.

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Appendix A

2014 Program Funding by Source

Appendix A: 2014 Program Funding by Source - Funds Available for Commitment

		2014 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2) - Regular	Housing Investment Fund (Pool 2) - Revolving Funds	Housing Affordability Fund (Pool 3) - Regular	Housing Afffordability Fund (Pool 3) - Revolving Funds
	Homebuyer and Home Refinance	**$431,338,750**	**$3,400,000**	**$4,597,065**	**$0**	**$401,600,000**	**$16,000,000**	**$0**	**$5,741,685**	**$0**
1	Home Mortgage Loans	$376,000,000	$0	$0	$0	$376,000,000	$0	$0	$0	$0
2	Targeted Mortgage Opportunity Program	$10,000,000	$0	$0	$0	$0	$8,000,000	$0	$2,000,000	$0
3	Mortgage Credit Certificates (MCC)	$25,600,000	$0	$0	$0	$25,600,000	$0	$0	$0	$0
4	Deferred Payment Loan Program	$4,000,000	$0	$2,758,315	$0	$0	$0	$0	$1,241,685	$0
5	HOME HELP	$3,400,000	$3,400,000	$0	$0	$0	$0	$0	$0	$0
6	Monthly Payment Loan Program	$7,000,000	$0	$0	$0	$0	$7,000,000	$0	$0	$0
7	Single Family Interim Lending	$1,522,750	$0	$522,750	$0	$0	$0	$0	$1,000,000	$0
8	Habitat for Humanity Initiative	$2,000,000	$0	$0	$0	$0	$1,000,000	$0	$1,000,000	$0
9	Homebuyer Education, Counseling, & Training (HECAT)	$1,316,000	$0	$1,316,000	$0	$0	$0	$0	$0	$0
9a	HECAT - Enhanced Financial Capacity Initiative	$500,000	$0	$0	$0	$0	$0	$0	$500,000	$0
	Home Improvement	**$20,930,000**	**$0**	**$4,594,171**	**$0**	**$0**	**$13,500,000**		**$2,835,829**	**$0**
10	Home Improvement Loan Program	$13,830,000	$0	$0	$0	$0	$13,500,000	$0	$330,000	$0
10a	Targeted Home Improvement Interest Write-Down	$500,000	$0	$0	$0	$0	$0	$0	$500,000	$0
11	Rehabilitation Loan Program (RLP)	$6,600,000	$0	$4,594,171	$0	$0	$0	$0	$2,005,829	$0
	Rental Production- New Construction and Rehabilitation	**$86,000,963**	**$15,582,612**	**$15,860,070**	**$58,281**	**$40,000,000**	**$10,000,000**	**$0**	**$4,500,000**	**$0**
12	Multifamily Amortizing First Mortgages	$50,000,000	$0	$0	$0	$40,000,000	$10,000,000	$0	$0	$0
12a	Low and Moderate Income Rental (LMIR)	$40,000,000	$0	$0	$0	$30,000,000	$10,000,000	$0	$0	$0
12b	MAP Lending (Multifamily Accelerated Processing)	$10,000,000	$0	$0	$0	$10,000,000	$0	$0	$0	$0
13	Flexible Financing for Capital Costs (FFCC)	$4,500,000	$0	$0	$0	$0	$0	$0	$4,500,000	$0
14	Low-Income Housing Tax Credits (LIHTC)	$8,201,743	$8,201,743	$0	$0	$0	$0	$0	$0	$0
15	Affordable Rental Preservation (PARIF and HOME HARP)	$20,102,939	$7,380,869	$12,722,070	$0	$0	$0	$0	$0	$0
16	Housing Trust Fund (Capital)	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	Publicly Owned Housing Program (POHP)	$58,281	$0	$0	$58,281	$0	$0	$0	$0	$0
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$3,138,000	$0	$3,138,000	$0	$0	$0	$0	$0	$0
	Rental Assistance Contract Administration	**$183,890,970**	**$183,890,970**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
19	Section 8 - Performance Based Contract Administration (PBCA)	$113,000,000	$113,000,000	$0	$0	$0	$0	$0	$0	$0
20	Section 8 - Traditional Contract Administration (TCA)	$70,000,000	$70,000,000	$0	$0	$0	$0	$0	$0	$0
21	Section 236	$890,970	$890,970	$0	$0	$0	$0	$0	$0	$0
	Resources to Prevent and End Homelessness (Non-Capital)	**$29,020,389**	**$219,245**	**$25,380,873**	**$0**	**$0**	**$0**	**$0**	**$3,420,271**	**$0**
22	Housing Trust Fund (HTF) - **Net Activity**	$14,407,373	$0	$14,407,373	$0	$0	$0	$0	$0	$0
22a	Funding for new contracts	$3,935,134	$0	$3,935,134	$0	$0	$0	$0	$0	$0
22b	Adj. to spread two-year contracts over two years	$10,472,239	$0	$10,472,239	$0	$0	$0	$0	$0	$0
23	Ending Long-Term Homelessness Initiative Fund (ELHIF) - **Net Activity**	$3,420,271	$0	$0	$0	$0	$0	$0	$3,420,271	$0
23a	Funding for new contracts	$1,719,000	$0	$0	$0	$0	$0	$0	$1,719,000	$0
23b	Adj. to spread two-year contracts over two years	$1,701,271	$0	$0	$0	$0	$0	$0	$1,701,271	$0
24	Bridges - **Net Activity**	$3,111,500	$0	$3,111,500	$0	$0	$0	$0	$0	$0
24a	Funding for new contracts	$400,000	$0	$400,000	$0	$0	$0	$0	$0	$0
24b	Adj. to spread two-year contracts over two years	$2,711,500	$0	$2,711,500	$0	$0	$0	$0	$0	$0
25	Section 811 Demonstration	$80,000	$80,000	$0	$0	$0	$0	$0	$0	$0
26	Family Homeless Prevention and Assistance Program (FHPAP) - **Net**	$7,862,000	$0	$7,862,000	$0	$0	$0	$0	$0	$0
26a	Funding for new contracts	$0	$0	$0	$0	$0	$0	$0	$0	$0
26b	Adj. to spread two-year contracts over two years	$7,862,000	$0	$7,862,000	$0	$0	$0	$0	$0	$0
27	Housing Opportunities for Persons with AIDS (HOPWA)	$139,245	$139,245	$0	$0	$0	$0	$0	$0	$0
	Rental Portfolio Management	**$6,500,000**	**$3,500,000**	**$0**	**$0**	**$0**	**$0**	**$0**	**$3,000,000**	**$0**
28	Asset Management	$3,000,000	$0	$0	$0	$0	$0	$0	$3,000,000	$0
29	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	$3,500,000	$3,500,000	$0	$0	$0	$0	$0	$0	$0
	Multiple Use Resources	**$33,568,827**	**$0**	**$17,818,827**	**$0**	**$0**	**$2,000,000**	**$8,500,000**	**$4,250,000**	**$1,000,000**
30	Economic Development and Housing/ Challenge (EDHC)	$27,827,907	$0	$17,327,907	$0	$0	$2,000,000	$8,500,000	$0	$0
31	Technical Assistance and Operating Support	$2,740,920	$0	$490,920	$0	$0	$0	$0	$2,250,000	$0
32	Non-Profit Capacity Building Loan Program	$1,000,000	$0	$0	$0	$0	$0	$0	$0	$1,000,000
33	Strategic Priority Contingency Fund	$2,000,000	$0	$0	$0	$0	$0	$0	$2,000,000	$0

Appendix A: 2014 Program Funding by Source - Funds Available for Commitment

		2014 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Agency Bond Proceeds and Other Mortgage Capital	Housing Investment Fund (Pool 2) - Regular	Housing Investment Fund (Pool 2) - Revolving Funds	Housing Affordability Fund (Pool 3) - Regular	Housing Afffordability Fund (Pool 3) - Revolving Funds
	Other	**$3,591,115**	**$592,222**	**$2,998,893**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
34	Administrative Expenses HOME	$592,222	$592,222	$0	$0	$0	$0	$0	$0	$0
35	Manufactured Home Relocation Trust Fund	$1,279,536	$0	$1,279,536	$0	$0	$0	$0	$0	$0
36	Flood Disaster	$0	$0	$0	$0	$0	$0	$0	$0	$0
37	Disaster Relief Contingency Fund	$1,719,357	$0	$1,719,357	$0	$0	$0	$0	$0	$0
	Total	**$794,841,013**	**$207,185,049**	**$71,249,898**	**$58,281**	**$441,600,000**	**$41,500,000**	**$8,500,000**	**$23,747,785**	**$1,000,000**

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Appendix B

2014 Program Narratives

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2014 Affordable Housing Plan
Appendix B: Program Narratives

Contents

Notes on reading the program narratives:

- "Housing Investment Fund" and "Pool 2" refer to the same resources.
- "Housing Affordability Fund" and "Pool 3/Foundation" refer to the same resources.
- The sum of the projections for the number of housing units or households assisted by individual programs during the plan period exceed the total number of households projected to be served across all programs. This occurs because some households or housing units will receive assistance from multiple programs in order to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation and program trends.
- Several programs have multiple funding sources which may necessitate some differences in program rules depending on the funding sources.
- The tables in the narratives show funds available for commitment in 2014. Previous AHPs also showed committed funds that had not yet disbursed. The 2014 narratives no longer show these committed balances for display simplicity.

Home Mortgage Loans

Minnesota Housing's home mortgage loans are fully-amortizing first mortgage loans at affordable interest rates for low- and moderate-income homebuyers. Participating first mortgage lenders throughout the state originate the loans for sale under the program. Home mortgage loans help Minnesota Housing to promote and support successful homeownership by offering financing with affordable interest rates, access to down-payment and closing cost loans for eligible borrowers, and homebuyer education. The program supports borrowers traditionally not served by the private market.

In December 2012, significant changes to Minnesota Housing home mortgage loans were implemented which primarily resulted in expanding Minnesota Housing's borrower pool. The redesigned program contains one mortgage program designed for first-time homebuyers ("Start Up") with borrower access to three down-payment and closing cost (DPA) loan options, including two interest-free deferred loan options and a new interest-bearing, fully-amortizing loan option.

Traditionally, Minnesota Housing has financed its mortgage programs with mortgage revenue bond (MRB) proceeds. In addition, in the last year the Agency added a secondary market execution option (loans financed with proceeds from selling the Agency's mortgaged-backed securities) for both MRB-compliant home mortgage loans and expanded loan offerings available to non-first-time homebuyers ("Step Up"). These expanded options include both home purchase and mortgage refinance options. Loans sold on the secondary market are not subject to MRB tax-exempt bond requirements, unless the borrower receives a mortgage credit certificate (MCC).

By redesigning its home mortgage loan programs to include first mortgage programs for non-first-time homebuyers, the Agency has improved and adapted loan products to ensure a needs-based program. The Agency remains committed through its program redesign to continue to serve emerging market populations (households of color or Hispanic ethnicity) and households with incomes below 80 percent of area median income (AMI).

Current income limits for one and two person households:

Property Location	Maximum
Minneapolis/Saint Paul metro area	$83,900
Rochester	$81,300
Balance of State	$73,900

Current income limits for three or more person households:

Property Location	Maximum
Minneapolis/Saint Paul metro area	$96,485
Rochester	$93,495
Balance of State	$84,985

Maximum loan amounts:

- $298,125 in the Minneapolis/Saint Paul metropolitan area
- $237,031 in the balance of the state

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 2,328 loans
- $264,392,643 total loan amount
- $113,571 average loan
- median household income of borrowers was $44,000 or 60 percent of statewide median
- 23 percent were households of color

Staff estimates overall home mortgage production to increase by as much as $26 million from 2013 to 2014. Home mortgage production for 2014 is difficult to predict due to overall market volatility, current high levels of Start Up production, and lender acclimation to the new Step Up and mortgage credit certificate (MCC) first mortgage programs. Start Up production is expected to increase in 2014 with Step Up production remaining stable at current levels. Overall home mortgage loan production is estimated at $470 million in gross commitments, which includes Start Up, Step Up and MCC first mortgage production. Typically, 20 percent of commitments cancel during a year, therefore the total estimated funding for net commitments is $376 million.

Estimating the market demand for Minnesota Housing loan products is a challenge. Uncertain market conditions related to regulatory changes, the increased interest rate environment, recovering home valuation, and the overall employment outlook will affect both need and demand for these products. Staff will continue working to ensure that the home mortgage programs and corresponding DPA programs meet the needs of low- and moderate-income homeowners (80 percent AMI and below), that loan commitments are targeted to emerging market communities, and that Minnesota Housing maintains the quality of the MBS loan portfolio.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to finance loans for an estimated 2,785 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	$376,000,000
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total*	$376,000,000*
2013 Original Total	**$350,000,000**

*The program will be funded at $470 million in gross commitments, which should result in $376 million of net activity, with 20 percent of loan commitments canceling.

Legal Authority: Minn. Stat. §462A.05, Subd. 3; Minn. Stat. §462A.073; Minn. Rules, Parts 4900.3200-3290; IRC §143

Targeted Mortgage Opportunity Program

The Targeted Mortgage Opportunity Program is a new initiative to provide sustainable first mortgage or equivalent financing opportunities to households struggling to access mortgage credit and will target emerging market households (i.e., households of color or Hispanic ethnicity) in Minnesota.

Emerging markets are an increasing share of the state's population. These households are struggling to access the mortgage market, the foreclosure crisis fell disproportionately on them, and their homeownership rate has declined significantly since 2008. As of 2011, Minnesota's homeownership disparity (the homeownership rate differential between White/non-Hispanic households and emerging markets) is the highest in the nation.

Proposal for 2014

The Agency proposes allocating $8 million under the 2014 AHP for a first mortgage loan pool for credit-worthy borrowers struggling to access a mortgage. There will be special marketing for emerging market homebuyers. The loan pool would be marketed through collaborative efforts with organizations that work closely with and/or provide outreach to emerging market populations. As part of this effort, the Agency would work with designated organizations to assure successful homeownership as well as household stability through intensive homeowner and financial literacy training. All loans under the proposed program would be originated by designated, culturally-competent mortgage lenders and serviced by an organization that understands the objective of the program. The Agency anticipates that an estimated 44 loans will be originated under this pool, underwritten pursuant to standards to be developed that likely will be concessionary; as a result, $2 million is requested from Pool 3 to serve as a risk pool to reimburse Pool 2 for any losses that might occur under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$8,000,000
Housing Affordability Fund (Pool 3)	
Regular	$2,000,000
Revolving	
2014 Total	$10,000,000
2013 Original Total	**$0**

- **Legal Authority:** Minn. Stat. § 462A.05, Subd. 3

Mortgage Credit Certificates

As an alternative to allowing excess mortgage revenue bond (MRB) authority to expire, Minnesota Housing converted that authority into Mortgage Credit Certificates (MCCs) for first-time homebuyers. MCCs allow eligible homebuyers to claim a nonrefundable tax credit for a percentage of the annual mortgage interest paid per year by providing a dollar-for-dollar reduction against the homeowner's federal tax liability with a $2,000 cap per year. Eligibility requirements for mortgage revenue bond (MRB) programs, such as first-time homebuyer status, also apply to the MCC program.

Program Performance and Trends

In November 2012, Minnesota Housing converted $135,107,649 of expiring bonding authority to $33,776,912 in MCC authority. MCCs were available through Minnesota Housing starting on June 24, 2013 and will operate through December 31, 2014, or until funds are exhausted.

It is difficult to estimate demand for the MCC Program. While popular with consumers in other states and communities offering MCCs, they are complicated to explain and require lender training and increased need for program promotion. If demand for MCCs exceeds initial estimates, Minnesota Housing will evaluate the efficacy of continuing the program.

Proposal for 2014

Minnesota Housing is budgeting $25.6 million of MCC authority for 2014. Estimated production is 488 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	$25,600,000
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$25,600,000
2013 Original Total*	**$12,500,000**

*Bonding authority is converted to MCC authority. Last year, funding was shown as bonding authority; this year, the table shows MCC authority.

Legal Authority: Minn. Stat. §462A.05; IRC §143, Section 25

Deferred Payment Loans

Minnesota Housing offers three down payment and closing cost loan programs (Deferred Payment Loan, HOME HELP, and Monthly Payment Loan) that support homeowners purchasing under the Start Up or Step Up or first mortgage loans originated incident to the MCC program. Historically, the percentage of Minnesota Housing borrowers using one of the three DPA programs has been significant, ranging from 60 percent to 71 percent of all borrowers.

The Deferred Payment Loan (DPL) provides an interest-free loan for down payment and closing costs for income-eligible first-time homebuyers purchasing a home under the Start Up program. Borrowers that receive DPL assistance lack necessary funds for standard mortgage down payment and closing costs. The maximum loan amount is the lesser of five percent of the home purchase price or $4,500. DLP requires at least one borrower per household to complete homebuyer education. The program serves lower income households than the amortizing Monthly Payment Loan (MPL) and is funded through a combination of state appropriations and Pool 3 funds.

To ensure that funds support successful homeownership, DPL requires borrowers to contribute $1,000 of their own funds to the transaction, maintain adequate funds in reserve accounts to finance emergency funding needs, have a debt-to-income ratio of less than 50 percent and a credit score of at least 640. DPL also requires at least one borrower per household to complete homebuyer education.

Current income limits are adjusted by household size. Limits for households of up to four members are:

Property Location	Maximum
Minneapolis/Saint Paul metro area	$50,000
Rochester	$50,000
Balance of State	$40,000

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 1,418 loans
- $5,756,754 total loan amount
- $4,060 average loan
- median household income of borrowers was $44,000 or 60 percent of statewide median
- 25 percent were households of color

As a result of a number of new program changes implemented in late December 2012 for all home mortgage programs, the maximum allowable loan amount for the DPL decreased to $3,000 and demand for the DPL decreased significantly resulting in unprecedented underutilization of funds. In an effort to continue to target this program to borrowers with traditional income and other mission-oriented borrower characteristics similar to borrowers served under the previous Homeownership Assistance Fund (HAF) program, the maximum loan amount was revised upward in late June 2013 and Minnesota Housing staff expect a corresponding increase in demand for this loan program.

Proposal for 2014

Staff requests a total of $4 million for DPL for the 2014 AHP. Demand for the DPL program is based on home mortgage production estimates that are subject to market volatility; therefore, it is important to view this funding request as conservative. With as many as 70 percent of Minnesota Housing borrowers historically using a down payment and closing cost loan program, if home mortgage demand exceeds estimated production, additional resources may be needed to support this program.

Based on resources available for new activity in 2014, Minnesota Housing expects to fund DPL loans for an estimated 711 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$830,000
Carry Forward of Unobligated Balances from Previous Plans	$828,315
Repayments and Receipts	$1,100,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$1,241,685
Revolving	
2014 Total	$4,000,000
2013 Original Total	**$5,841,209**

Legal Authority: Minn. Stat. §462A.21, Subd. 8; Minn. Rules, Parts 4900.1300-1359

HOME Homeowner Entry Loan Program (HOME HELP)

The HOME Homeowner Entry Loan Program (HOME HELP) provides interest-free, deferred funding to eligible homebuyers for down-payment and closing costs. The program is one of three down-payment assistance loan programs that support first-time homebuyers receiving a Minnesota Housing home mortgage loan under “Start Up”. HOME HELP includes a provision to forgive 50 percent of the loan after six years of owner occupancy.

To ensure that HOME HELP funds support successful homeownership, HOME HELP requires borrowers to contribute $1,000 of their own funds to the transaction, maintain adequate funds in reserve accounts to finance emergency funding needs, have a debt-to-income ratio of less than 50 percent and a credit score of at least 640. HOME HELP also requires at least one borrower per household to complete homebuyer education.

Current income limit: 80 percent of county median income, adjusted for family size

Maximum loan amount: $10,000

Program Performance and Trends
For the period of October 1, 2011 – September 30, 2012 Minnesota Housing funded:

- 219 loans
- $2,033,000 total loan amount
- $9,283 average loan
- median household income of borrowers was $39,000 or 53 percent of statewide median
- 40 percent were households of color

Proposal for 2014
The 2014 AHP funding request is slightly lower than the 2013 AHP funding request primarily due to a lower average loan amount in the HOME HELP program resulting from program changes implemented in December 2012.

Staff based the 2014 HOME HELP funding request on estimated Start Up production and share of the overall Minnesota Housing down-payment assistance loan production. While HOME HELP lenders have gained increasing confidence in the federal requirements associated in delivering quality loans under the program, first mortgage (Start Up) production drives HOME HELP production, and Start Up production is subject to market uncertainty. This market uncertainty makes production estimates subject to revision as the year progresses.

Minnesota Housing expects to fund approximately 321 HOME HELP loans in 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$2,485,970
Carry Forward of Unobligated Balances from Previous Plans	$914,030
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$3,400,000
2013 Original Total	**$4,000,000**

Legal Authority: Title II of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. 12701 et. seq.; 24 C.F.R 92

Monthly Payment Loan

Monthly Payment Loans (MPLs) are interest-bearing, amortizing loans that provide down-payment and closing cost funds to support the Agency's home mortgage loan programs, including "Start Up", "Step Up", and the first mortgage loans originated incident to the Mortgage Credit Certificate program. Borrowers who qualify for MPLs may receive up to the greater of $5,000 or five percent of the purchase price of the home. MPLs have a 10-year term and an interest rate equal to that of the first mortgage. Minnesota Housing began offering MPLs in December 2012 and has experienced strong demand for the program.

To ensure that MPL funds support successful homeownership, MPL requires borrowers to contribute $1,000 of their own funds to the transaction, maintain adequate funds in reserve accounts to finance emergency funding needs, have a debt-to-income ratio of less than 50 percent and a credit score of at least 640. MPL also requires at least one borrower per household to complete homebuyer education.

This loan product employs several Agency strategies: improving and adapting products to ensure that they are attractive and easy to use in a changing market, prudently using down-payment and closing cost loans to serve borrowers and support loan production without putting borrowers at unnecessary risk, and expanding the pool of lenders and the services provided to these lenders.

Program Performance and Trends
Funds support Minnesota Housing home mortgage loans and are available to borrowers who meet the guidelines and the program income limits. As this is a new program, there was no activity to report for 2012; however, demand is strong with over 400 loans funded in 2013.

Proposal for 2014
Minnesota Housing expects to fund an estimated 875 MPLs in 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$7,000,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$7,000,000
2013 Original Total	**$5,000,000**

Legal Authority: Minn. Stat. §462A.05

Single Family Interim Lending

Single Family Interim Lending includes the Partnership for Affordable Housing (PAH), funded from Pool 3, and Innovative Housing, funded by the Minnesota Legislature in the late 1970s with funds that have revolved since the initial appropriation. Under this activity, Minnesota Housing provides interim loans to acquire, rehabilitate, demolish or construct owner-occupied housing. Interim loans funded through PAH have a two percent interest rate while loans funded through the Innovative appropriation are interest-free. The loan term is 20 months. Both sources of interim funding are awarded annually through the Single Family Request for Proposals process in accordance with the Agency's mission and funding priorities. Innovative funds are reserved for proposals involving innovative construction techniques.

Program Performance and Trends
Data on interim lending are included in data provided under the Community Homeownership Impact Fund (formerly known as the Community Revitalization Program or CRV). The Impact Fund is the umbrella program under which Minnesota Housing currently delivers the Economic Development and Housing/Challenge Program and interim construction financing, primarily for single family owner-occupied housing.

Proposal for 2014
The decline in use of interim funds coincides directly with the decline in single-family new construction market activity. In 2007, Minnesota Housing awarded nearly $2.7 million in interim financing; since that time, there has been variable demand for the resource, with $660,000 awarded in 2012.

It is difficult to project the demand for interim financing in any given annual funding round because of the flexible nature of the funding source, which allows for rehabilitation as well as new construction activity. This year, the request is greater given the recent rebound in new construction interest. Governor Dayton's new Housing and Jobs Growth Initiative also suggests a greater need for interim construction financing in those parts of the state where employers are poised to expand but there is not enough affordable housing to meet the needs of the local workforce.

Based on resources available for new activity in 2014, Minnesota Housing anticipates making five interim or construction loans to administrators for approximately 19 housing units.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
Revolving	$522,750
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$1,000,000
Revolving	
2014 Total	$1,522,750
2013 Original Total	**$910,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 2 and Minn. Stat. §462A.05, Subd. 18; Minn. Rules, Parts 4900.1200-1210

Habitat for Humanity Initiative

The Habitat for Humanity Initiative provides a secondary market for interest-free loans originated by Habitat for Humanity Minnesota affiliates for qualifying households throughout Minnesota (under its Next 1,000 Homes Fund).

Current income limit: Less than or equal to 50 percent of the greater of state or area median income.

Habitat sets specific borrower income limits, which are lower than Minnesota Housing's limits. Habitat also establishes maximum loan amounts that are lower than Minnesota Housing's home mortgage loan program limits.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded the following Habitat for Humanity Initiative loans:

- 17 loans
- $1,344,761 total loan amount
- $79,104 average Minnesota Housing funding per household
- median household income of borrowers was $33,000 or 46 percent of statewide median
- 77 percent were households of color

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to fund loans for approximately 24 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$1,000,000
Housing Affordability Fund (Pool 3)	
Regular	$1,000,000
Revolving	
2014 Total	$2,000,000
2013 Original Total	**$2,000,000**

Legal Authority: Minn. Stat. §462A.21, Subd. 5

Homeownership Education, Counseling and Training (HECAT, NFMC, and the MHA Project)

Homeownership Education, Counseling and Training (HECAT) supports: pre-purchase homebuyer training, home equity conversion counseling, and foreclosure prevention counseling. Minnesota Housing and its funding partners (the Minnesota Home Ownership Center and the Greater Minnesota Housing Fund) accept funding proposals from administrators annually through a competitive Request for Proposals process. Minnesota Housing also funds foreclosure prevention counseling with federal funds from the National Foreclosure Mitigation and Counseling (NFMC) program and the Making Home Affordable Outreach and Intake Project (MHA Project). Current funding from NFMC and the MHA Project will run through December 2013.

Current income limit: none, but participants with incomes less than or equal to 60 percent of area median are encouraged to participate.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

- 14,931 households
- $3,644,735 funding amount
- $244 average Minnesota Housing assistance per household
- median household income of participants was $34,000 or 46 percent of statewide median
- 29 percent were households of color

This is an ongoing program with experienced subgrantees delivering statewide services. Staff does not anticipate any problems with fully committing and expending funds for these activities that directly support Minnesota Housing's mission and strategic priorities.

A review of mortgage delinquency and foreclosure in Minnesota shows that rates are still high compared to historic trends. Although many troubled loans remain in the system, rates have declined from the highs of 2009 – 2011 and need, especially for foreclosure counseling, is diminishing.

Proposal for 2014
The 2014 HECAT budget is slightly less than the previous year's budget. Some difference can be attributable to varying repayments from Foreclosure Prevention Assistance Program loans and any modest carryover from undisbursed funds based on lower than estimated subgrantee client service levels.

Based on resources available for new activity in 2014, Minnesota Housing expects to fund assistance for approximately 12,400 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$791,000
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	$25,000
Contributions from Other Organizations	$500,000
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$1,316,000
2013 Original Total	**$1,555,750**

Legal Authority: Minn. Stat. §462A.209

Enhanced Financial Capacity Initiative

The Enhanced Financial Capacity Initiative is a new initiative targeted to emerging market households (i.e., households of color or Hispanic ethnicity) to increase their probability of successful homeownership in Minnesota.

Emerging markets are an increasing share of the state's population. These households are struggling to access the mortgage market, the foreclosure crisis fell disproportionately on them, and their homeownership rate has actually declined significantly since 2008. As of 2011, Minnesota's homeownership disparity (the homeownership rate differential between White/non-Hispanic and emerging markets households) is the highest in the nation.

One strategy for increasing sustainable homeownership opportunities for low and moderate income Minnesotans has been comprehensive homeowner training. Minnesota's statewide homeowner training infrastructure, the "homeownership advisors network", has been developed by the Minnesota Homeownership Center with strong programming and financial support from Minnesota Housing.

New approaches to serving potential emerging market homeowners include supplementing traditional homeowner training with intensive financial literacy and providing case management services to enhance family stability and sustainable homeownership. There are both national and local models for such activities, and this initiative hopes to pilot and expand such models.

Program Performance and Trends

Minnesota Housing staff proposed this initiative to support new and expanded homeowner training efforts through existing organizations. Clients that wish to stabilize or improve their homeownership opportunities through participation in this initiative may be referred from a variety of sources. This effort will be linked with the Targeted Mortgage Opportunity Program.

Proposal for 2014

Based on resources available for new activity in 2014, Minnesota Housing anticipates serving 167 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$500,000
Revolving	
2014 Total	$500,000
2013 Original Total	**$0**

Legal Authority: Minn. Stat. §462A.209

Home Improvement Loan Program

Minnesota Housing's home improvement loan program provides below-market-interest-rate, fully-amortizing home improvement loans to low- and moderate-income homeowners to improve the livability and energy efficiency of their homes. The home improvement loan program is key to the Agency's priority to support successful homeownership.

A thorough product review of Minnesota Housing's home improvement loan program was identified as an important business activity during the development of the 2012 AHP. The product review resulted in several changes to make the program more attractive in the current market. Changes to the program in 2013 included:

- The reintroduction of unsecured loans to respond to the housing needs of underwater homeowners;
- Increasing lender fees and paying those fees out of Pool 3 as a way to offset increased lender costs, incent broader lender participation, and to not negatively impact program yield and address APR issues;
- Increasing the maximum loan amount (secured loan option to $50,000; unsecured loan option to $15,000; energy loan option to $15,000); and,
- Eliminating the income limit for energy and accessibility loan options.

Current income limit: $96,500

Maximum loan amount: $50,000 for secured loans; $15,000 for unsecured loans

Program Performance and Trends

In recent years, home improvement loan activity has declined due to difficult economic conditions and the availability of a number of other home improvement products. Recent program changes have not resulted in an immediate increase in overall production, but there has been a dramatic shift toward unsecured loans as well as energy incentive loans.

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 634 loans
- $10,492,222 total loan amount
- $16,549 average loan
- median household income of borrowers was $61,000 or 83 percent of statewide median
- 8 percent were households of color

Proposal for 2014

Funding for the 2014 AHP includes $500,000 of Pool 3 funds for a Targeted Home Improvement Interest Write-Down Initiative to provide home improvement loans to help households with incomes less than 80 percent of area median income and in communities with lower-income residents and older housing stock.

This funding request is less than in 2013 due to sluggish activity in the overall home improvement market. The challenge for this AHP year will be to successfully market the revised program to lenders and consumers statewide. Minnesota Housing has designed program changes to increase the appeal and functionality of its home improvement loan program.

Based on resources available for new activity in 2014, Minnesota Housing expects to finance loans for an estimated 838 households under this program including 200 households under the Targeted Home Improvement Interest Write-Down Initiative.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$13,500,000
Housing Affordability Fund (Pool 3)	
Regular	$830,000
Revolving	
2014 Total	$14,330,000
2013 Original Total	**$20,465,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 15; Minn. Rules, Parts 4900.0610-0700

Rehabilitation Loan Program (RLP)

The Rehabilitation Loan Program (RLP) provides deferred loan financing to low-income homeowners needing to rehabilitate their existing housing to improve its safety, livability or energy efficiency. Existing residential housing is rehabilitated to the greatest extent practicable to meet a rehabilitation standard adopted by the Agency in 2010. Homeowners needing assistance of an emergency nature or having an essential accessibility need are referred to the Emergency & Accessibility Loan (ELP) component of the program. RLP is a key component of the Agency priority to support successful homeownership. Local entities, such as community action agencies, administer the program.

The maximum RLP loan term is 15 years for properties taxed as real property and 10 years for manufactured homes taxed as personal property and located in a mobile home park. All loans are forgiven after the loan term if the borrower does not sell, transfer title, or cease to occupy the property during the loan term.

2013 income limits are adjusted by household size: $22,250 for a 3-person household

Maximum loan amount: $27,000

Program Performance and Trends

The funding source for RLP has varied over the past several AHPs. RLP was funded with state appropriations during and prior to the 2008-09 AHP. The 2010-11 AHP switched the funding source to federal HOME funds. As part of the 2012 AHP, Minnesota Housing changed the funding source back to state appropriations with the goal of enhancing lenders' ability to provide funding to low-income homeowners by the making the program easier for lenders, more flexible for homeowners, and more efficient for Minnesota Housing to administer. The 2013 AHP was the first full year of production under state appropriations. This funding source change has had its desired effect as production sky-rocketed and RLP funds were depleted six months into the state fiscal year.

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

- 211 loans
- $4,400,068 total loan amount
- $20,853 average loan
- median household income of borrowers was $14,000 or 19 percent of statewide median
- 11 percent were households of color

Proposal for 2014

A continued challenge for the upcoming year is to maintain lender capacity. Lender staff turnover and staff reduction have increased significantly over the last year due to budget cuts. RLP program staff are exploring ways to target rehabilitation to better address the need for safety, livability, accessibility, and energy conservation repairs.

The program request for this 2014 AHP is to maintain the current funding level and to prioritize the disaster fund rollover to households affected by the flood in Northeastern Minnesota.

Based on resources available for 2014, Minnesota Housing expects to fund rehabilitation loans for an estimated 293 households.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$2,772,000
Carry Forward of Unobligated Balances from Previous Plans	$1,072,171
Repayments and Receipts	$750,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$2,005,829
Revolving	
2014 Total	$6,600,000
2013 Original Total	**$5,750,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 14a; Minn. Rules, Parts 4900.0610-0700

Amortizing First Mortgages

Multifamily has the ability to finance and insure amortizing first mortgages. Traditionally, Minnesota Housing has made direct loans through its Low and Moderate Income Rental Program (LMIR) using either Pool 2 resources or proceeds from the issuance of tax exempt bonds (in combination with HUD's Risk Sharing Program). Direct loans will now be made under LMIR in combination with HUD's Risk Sharing Program. In addition, loans will be originated under HUD's Multifamily Accelerated Processing (MAP) program, which allows the Agency to access the secondary market and securitize loans. MAP is a new product line being implemented under the 2014 AHP.

LMIR

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

Current eligibility requirements: 40 percent of units must be affordable to households with incomes at 60 percent of the area median income or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and 25 percent of units may be unrestricted. The balance of the units may be affordable to households with incomes up to 100 percent of the area median income.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible with loan amounts less than $2 million on tax-exempt bond loans and $350,000 on all others.

MAP

The HUD Multifamily Accelerated Processing (MAP) program provides mortgage insurance through the Federal Housing Administration to facilitate the new construction, rehabilitation, acquisition, and refinance of multifamily rental housing. Loans are fully amortizing, interest bearing and non-recourse to borrowers with standard carve outs. Loans will be funded by a third party lender and securitized into Ginnie Mae Mortgage Backed Securities pools. These loans may be paired with other Minnesota Housing loan programs.

Eligibility Requirements: The development project must meet the underwriting standards as prescribed by HUD, including loan-to-value requirements and debt service coverage ratio. The development team must also meet the HUD requirements regarding experience and financial strength.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible in amounts of less than $1 million.

Program Performance and Trends

For the period of October 1, 2011 – September 30, 2012, under LMIR Minnesota Housing financed:

- 12 loans for developments with 776 units

- $27,347,435 total loan amount
- $38,242 average LMIR assistance per unit
- median household income of tenants was $18,000 or 25 percent of statewide median
- 42 percent of households were of color

MAPS is new to Minnesota Housing; there is no activity to report for the period of October 1, 2011 – September 30, 2012.

Proposal for 2014
Due to availability of competitive financing opportunities from other sources, staff requested a smaller LMIR allocation for this AHP. Of the $40 million for LMIR, $10 million will be for bridge loans and $30 million will be for permanent financing. In addition, there will be $10 million of MAP funding..

Based on resources available for new activity in 2014, Minnesota Housing expects to assist 1,533 units, including an estimated 1,150 units under LMIR and an estimated 383 units under MAPS (e.g., excluding bridge loans).

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	$40,000,000
Housing Investment Fund (Pool 2)	$10,000,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$50,000,000
2013 Original Total	**$90,000,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 3

Flexible Financing for Capital Costs (FFCC)

The Flexible Financing for Capital Costs (FFCC) program provides deferred loans at low or no interest to support the production, stabilization, and maintenance of multifamily rental housing. Funds are provided only in conjunction with Low and Moderate Income Rental (LMIR) or other Agency-originated first mortgage loans for the refinance, acquisition, rehabilitation or new construction/conversion of rental developments that house low- and moderate-income Minnesotans.

The current FFCC program is administered both through the Consolidated Request for Proposals process and on a pipeline basis, allowing the Agency to act more quickly to meet the immediate needs of developments that would be unnecessarily delayed and subjected to hardship if required to wait for the next RFP.

Current eligibility requirements: 40 percent of units must be affordable to households with incomes at 60 percent or the area median income or 20 percent of units must be affordable to households with incomes at 50 percent area median income; and 25 percent of units may be unrestricted. The balance of the units may be affordable to households with incomes up to 100 percent of the area median income.

Maximum loan amount: no set limit, subject to funding availability

Program Performance and Trends

For the period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- 2 FFCC loans for developments with 105 units
- $494,983 total loan amount
- $4,714 average FFCC assistance per unit

As a result of the state's aging portfolio, the Agency anticipates a continued increase of preservation and stabilization requests.

Proposal for 2014

Staff requested FFCC resources to address the preservation and stabilization of developments as well as the refinancing of existing loans. Based on resources available for new activity in 2014, Minnesota Housing expects to fund an estimated 274 units under FFCC.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$4,500,000
Revolving	
2014 Total	$4,500,000
2013 Original Total	**$4,000,000**

Legal Authority: Minn. Stat. §462A.05, Subd.3, and - Minn. Stat. §462A.21, Subd.8a.

Low-Income Housing Tax Credits (LIHTC)

Low-Income Housing Tax Credits (LIHTC) provide federal income tax credit to owners and investors in the construction or acquisition with substantial rehabilitation of eligible rental housing. Housing must meet income and rent restrictions for a minimum of 30 years. The allocation of tax credits is based upon the state's population and a per capita amount that increases each year with the cost of living. Syndication proceeds are the amounts of private equity invested in developments as a result of federal housing tax credits awarded and then sold to investors.

Minnesota Housing was designated by the Minnesota Legislature as the primary allocating Agency of LIHTC in Minnesota. Qualified local cities and counties have also been designated by the Legislature as suballocators of the HTC.

Minnesota Housing awards tax credits in two rounds of a competitive allocation process held each year. Round 1 is held concurrent with the Minnesota Housing Consolidated Request for Proposals and a smaller Round 2 occurs later. A waiting list is established at the conclusion of Round 2. The award of LIHTC's is highly competitive process with requests totaling 3:1 or 4:1 for each available credit dollar.

Section 42 of the Internal Revenue Code requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. Minnesota Housing's Qualified Allocation Plan (QAP) combines state and federally legislated priorities with other priorities established by Minnesota Housing following receipt of comments from the public, local municipalities and federal agencies. The QAP sets forth selection criteria that are appropriate to local conditions and support the Agency's mission and strategic priorities.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012:

- 1,140 LIHTC units in 20 developments
- $67,029,941 in syndication proceeds
- $58,798 average syndication amount per unit
- median household income of tenants in LIHTC units financed by Minnesota Housing was $18,000 or 24 percent of statewide median
- 44 percent were households of color

Proposal for 2014
Based on the available LIHTC credit ceiling, Minnesota Housing expects to allocate tax credits for an estimated 651 units in 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$8,193,000
Carry Forward of Unobligated Balances from Previous Plans	$8,743
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$8,201,743
2013 Original Total	**$8,043,053**

Legal Authority: Minn. Stat. §462A.221-225; IRC §42

Affordable Rental Preservation (PARIF and HOME HARP)

Affordable Rental Preservation includes activity funded under the Affordable Rental Investment Fund – Preservation (PARIF) and HOME Affordable Rental Preservation (HOME HARP) programs. Minnesota Housing provides deferred loans throughout the state under this activity to help cover the costs of preserving permanent affordable rental housing that have long-term, project-based federal subsidies or supportive housing units. PARIF and HOME HARP funding may be used for acquisition, rehabilitation, and debt restructuring, and in the case of at-risk federally assisted developments, equity take-out.

Tenant income limit: PARIF is subject to federal guidelines of assistance being preserved. Income limits under HOME HARP are set annually by the U.S. Department of Housing and Urban Development (HUD).

Maximum assistance amount: None

Program Performance and Trends
PARIF funds were under-committed in the 2013 AHP primarily due to the unanticipated allocation of $30 million of Housing Infrastructure Bond proceeds and the Agency's priority to meet federal commitment requirements for HOME HARP. Expectations to commit HOME HARP funds continue; however, without a current HIB allocation, demand for PARIF should increase under the 2014 AHP.

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded preservation under these two programs:

PARIF
- 5 loans for 192 units
- $2,031,197 total loan amount
- $10,579 average PARIF assistance per unit
- median household income of tenants was $12,000 or 16 percent of statewide median
- 57 percent were households of color

HOME HARP
- 1 developments with 90 units
- $2,895,000 total loan amount
- $32,167 average HOME assistance per unit
- No demographic data available

These programs continue to be critical tools in the long-term preservation of expiring project-based Section 8 contracts as well as other project-based federally assisted housing.

As of July 2013, Minnesota Housing estimates that every dollar of deferred loan investment leverages seven dollars in federal project-based rental subsidies over the term of the investment, which is generally thirty years.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to fund an estimated 1,340 units under this program, including 848 units under PARIF and 492 units under HOME HARP; however, estimating HOME HARP usage and projecting unit counts is complicated by the program's lack of data on historic trends.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$2,844,031
Carry Forward of Unobligated Balances from Previous Plans	$4,536,838
State Appropriations	
New Appropriations	$4,218,000
Carry Forward of Unobligated Balances from Previous Plans	$8,254,070
Repayments and Receipts	$250,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$20,102,939
2013 Original Total	**$25,315,849**

Legal Authority: Minn. Stat. §462A.21, Subd. 8b and 14a; Minn. Stat. §462A.05, Subd. 3b; Laws of Minnesota 2009, Chap. 17, Art. 1, Sec. 6; Minn. Rules, Parts 4900.3500-3550, 2700-2707, 4900.0610-0700 and Title 11 of the Cranston-Gonzales National Affordable Housing Act; 42 U.S.C. §12701 et seq; 24 CFR Part 92

Housing Trust Fund – Capital

Historically, funding for the Housing Trust Fund (HTF) has come from either state appropriations or bond proceeds. Capital assistance is in the form of deferred loans at no or low interest for the acquisition, construction, or rehabilitation of affordable permanent supportive housing. Funding priority is given to housing proposals that serve tenants with incomes at 30 percent of the median family income for the Minneapolis/Saint Paul metropolitan area. Priority also is given to proposals serving households experiencing long-term homelessness.

Current tenant income limit: 60 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median income with priority for proposals serving households at 30 percent of Minneapolis/Saint Paul Metropolitan Statistical Area median income.

Maximum loan amount: none beyond funding availability

Program Performance and Trends
From October 1, 2011 – September 30, 2012 Minnesota Housing funded these capital expenses:

- three loans for developments with 146 units
- $1,887,802 loan amount
- $12,930 average HTF per unit
- median household income of all HTF tenants was $8,000 or 11 percent of statewide median
- 42 percent of all HTF tenants were households of color

Proposal for 2014
For the past two years, Minnesota Housing has used nearly 100 percent of regular HTF resources to sustain the Agency's rental assistance commitments. In the 2013 AHP, Minnesota Housing used Housing Infrastructure Bond (HIB) proceeds to provide forgivable loans to supportive housing developments under the applicable HTF statute, rules, and guidelines.

Minnesota Housing did not receive a new allocation of HIBs from the 2013 Minnesota Legislature.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	$0
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$0
2013 Original Total	**$12,000,000**

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Publicly Owned Housing Program (POHP)

The Publicly Owned Housing Program (POHP) provides deferred, forgivable loans at no interest to eligible public entities to preserve/rehabilitate properties built under the U.S. Department of Housing and Urban Development's Public Housing program that are owned and operated by local housing authorities. In the past, legislation has also authorized the acquisition, construction, or rehabilitation of publicly owned permanent supportive or transitional rental housing. Funds are from the proceeds of state general obligation (GO) bonds and can be used only for eligible capital costs of a non-recurring nature that add value or life to the buildings. There currently is no appropriation to this program.

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing financed:

- two loans for 316 units
- $418,000 total loan amount
- $2,247 average POHP assistance per unit
- median household income of tenants was $7,000 or nine percent of statewide median
- 21 percent were households of color

Proposal for 2014

Based on funding carried forward from the 2013 AHP, the Agency expects to fund an estimated 13 units of rehabilitation with uncommitted funds from the previous bonding bill.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	$58,281
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$58,281
2013 Original Total	**$5,567,979**

Legal Authority: Minn. Stat. §462A.202; Minn. Rules, Parts 4900.3100-3130

Rental Rehabilitation Deferred Loan Pilot Program (RRDL)

Minnesota Housing launched the Rental Rehabilitation Deferred Loan (RRDL) Pilot Program in October of 2011. The RRDL Pilot Program provides deferred, no interest loans to individuals, developers, non-profits, units of government, and tribal housing corporations for the moderate rehabilitation of existing affordable rental housing throughout Greater Minnesota. Up to 25 percent of the loan may be forgiven at the end of the full compliance period. The program is intended to serve owners of smaller federal assisted and non-assisted properties that do not apply through Minnesota Housing's competitive Request for Proposals process. RRDL gives preference to projects and programs serving areas that are not HOME entitlement areas.

Loans are accessible through a local administrative network, and larger developments may apply directly to Minnesota Housing for assistance. RRDL provides rehabilitation resources to both larger properties (12-60 units) through a Specific Project application process and smaller to medium properties (1-36 units) through a local administrative network.

Current tenant income limit: 80 percent of statewide or area median income (not adjusted for family size)

Maximum loan amount: $35,000 per unit for 1-2 units or $25,000 per unit up to a maximum loan of $300,000

Program Performance and Trends
From October 1, 2011 – September 30, 2012, the program's first year, Minnesota Housing allocated funds to administrators and developments, but no loans closed. In the initial allocation, RRDL was most effective in assisting applications for larger naturally affordable or publicly subsidized properties with up to 60 units. Smaller properties are typically privately owned by an individual or sole proprietorship, which presents many barriers to accessing RRDL funding.

In May 2013, the Minnesota Housing Board approved a variety of modifications to the program for individual or sole proprietorship, including revised underwriting standards and submission requirements. As a result, the program has experienced moderate success in attracting owners of smaller rental properties.

As of June 30, 2013, Minnesota Housing had financed:

- 5 loans (148 units) for a $1,392,409 total loan amount
- $9,408 average assistance per unit

As of June 30, 2013, administrators:

- made commitments for 10 loans (191 units) in the total loan amount of $2,176,725
- began processing 50 projects (327 units) for an additional $4,938,760 in program funding, an average of $15,103 per unit

Proposal for 2014
Based on resources available and current production trends, Minnesota Housing expects to finance an estimated 209 units in 2014 under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$3,138,000
Carry Forward of Unobligated Balances from Previous Plans	$0
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$3,138,000
2013 Original Total	**$1,520,176**

Legal Authority: Minn. Stat. §462A.05 sub.14 and §462A.33; Minn. Rules, Parts 4900.3600-3652

Section 8 – Performance Based Contract Administration (PBCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing & Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the actual fair market rent of assisted units.

Effective August 1, 2000 the Agency entered into an agreement with the U.S. Department of Housing and Urban Development (HUD) to administer existing Section 8 contracts for affordable rental units that are not part of the Agency's first mortgage portfolio. The Agency's primary responsibilities under Section 8 Performance Based Contract Administration (PBCA) are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist the Agency in identifying and planning for the preservation needs of developments with Section 8 assistance.

The contract with HUD to administer these Section 8 contracts was rebid in 2011, and Minnesota Housing was awarded the new contract, which extends from October 1, 2011 through September 30, 2013. Minnesota Housing currently administers 359 PBCA contracts for Section 8 units. PBCA revenue earned pays 100 percent of the cost of administering the program.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012 Minnesota reported:

- 18,894 household assisted
- $110,265,196 Housing Assistance Payments (HAP) amount
- $5,836 average assistance per household
- median household income of tenants was $11,000 or 15 percent of statewide median
- 37 percent were households of color

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and Traditional Contract Administration (TCA). Nearly one-third of PBCA units are located in the cities of Minneapolis and Saint Paul; an estimated 16 percent of TCA units are located in the cities of Minneapolis and Saint Paul.

Proposal for 2014
Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because PBCA HAP outlays are based in part on the number of assisted units in the portfolio, HAP outlays will increase as the portfolio increases.

Because these funds are based on owner billings for subsidy for specific tenants, and are not discretionary or competitively awarded, the Agency will pass the funds through to these owners as HUD provides funding.

Minnesota Housing expects to assist an estimated 18,833 units in 2014 under PBCA.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$113,000,000
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$113,000,000
2013 Original Total	**$107,100,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

Section 8 – Traditional Contract Administration (TCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing & Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the actual fair market rent of assisted units. Minnesota Housing provided permanent mortgage financing for Section 8 Traditional Contract Administration (TCA) developments from 1975 to the mid-1980s.

Minnesota Housing currently administers 193 contracts for Section 8 units in Agency-financed rental developments. The Agency's primary responsibilities under Section 8 TCA are: performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist the Agency in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012 Minnesota reported:

- 11,582 household assisted
- $71,317,018 Housing Assistance Payments (HAP) amount
- $6,158 average assistance per household
- median household income of tenants was $12,000 or 16 percent of statewide median
- 25 percent were households of color

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between Traditional Contract Administration (TCA - Minnesota Housing-financed Section 8) and Performance Based Contract Administration (PBCA – other Section 8). An estimated 33 percent of PBCA units are located in the cities of Minneapolis and Saint Paul; an estimated 16 percent of TCA units are located in the center cities.

Proposal for 2014
Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because these funds are based on owner billings for subsidy for specific tenants, and are not discretionary or competitively awarded, the Agency will pass the funds through to these owners as HUD provides funding.

Minnesota Housing expects to assist an estimated 11,667 units in 2014 under TCA.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$70,000,000
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2013 Total	$70,000,000
2012 Original Total	**$71,115,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 42 U.S.C. §1437f (Section 8 of the Housing and Community Development Act of 1937, as amended)

Section 236

The Section 236 program, which was used to fund low-income rental housing in the late 1960s and early 1970s, is an interest rate reduction program. The U.S. Department of Housing & Urban Development (HUD) subsidizes the interest rate on mortgages to a rate of one percent in order to reduce rents and keep the housing more affordable. The Section 236 program was a predecessor to the Section 8 program.

Program Performance and Trends

Under the Section 236 program, Minnesota Housing currently passes through interest rate reduction payments to developments that include more than 500 units of affordable housing financed by Minnesota Housing. Residents have household incomes at or below 80 percent of median income adjusted for family size.

Proposal for 2014

The program is long standing and well established and no changes are proposed or anticipated. The amount of funds in this program will continue to trend downward as the original mortgages mature.

Minnesota Housing expects to provide interest rate reduction to an estimated 985 units in 2014 under Section 236.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$890,970
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$890,970
2013 Original Total	**$1,625,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 11; 12 U.S.C. §1715z-1 (Housing and Urban Development Act of 1968)

Housing Trust Fund (HTF Non - Capital)

Historically, funding for the HTF has come from state appropriations and been used to fund capital, rental assistance and operating subsidy expenses. In recent years, HTF resources have been used primarily to sustain the Agency's rental assistance commitments. HTF rental assistance funds serve low-income families and individuals who are near-homeless, homeless, and/or long-term homeless.

Current tenant income limit: 60 percent of the Minneapolis/Saint Paul Metropolitan Statistical Area median income (AMI), with priority for proposals at 30 percent of AMI and proposals to serve the long-term homeless.

Maximum loan amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

HTF Rental Assistance

- 1,756 households assisted
- $8,220,694 assistance amount
- $6,688 average assistance per household
- median household income of tenants was $8,000 or 11 percent of statewide median
- 64 percent were households of color

HTF Operating Subsidy

- three grants for developments with 71 units
- $99,500 average grant amount
- $1,401 average assistance per unit

Proposal for 2014
The FY14-15 State of Minnesota budget includes additional Housing Trust Fund resources of $3 million for one-time, short-term rental assistance initiatives for highly mobile students and ex-offenders, as well as a $1.4 million increase to the base budget for the Housing Trust Fund. Of the $1.4 million, $700,000 will be allocated under the 2014 AHP. The remaining $700,000 will be allocated under the next AHP.

Based on resources available in 2014, Minnesota Housing expects to fund an estimated 2,383 households or units under this program. Under the 2013 AHP, the Agency entered into two-year contracts for rent assistance and operating subsidies. As shown in the table, a portion of the two-year contracts will cover 2014.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$700,000
Carry Forward of Unobligated Balances from Previous Plans	$3,135,134
Repayments and Receipts	$100,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
Funding for New Contracts	$3,935,134
Adj. to spread two-year contracts over two years	$10,472,239
2014 Total Program Activity	$14,407,373
2013 Original Total	**$10,588,219**

Legal Authority: Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Ending Long-Term Homelessness Initiative Fund (ELHIF)

The Ending Long-Term Homelessness Initiative Fund (ELHIF), operating under the Housing Trust Fund statute and program rules, has been used for capital funding, rental assistance, operating subsidy expenses and non-bondable development costs in general-obligation, bond-funded, supportive housing projects.

ELHIF-assisted tenants meet the definition of long-term homelessness: lacking a permanent place to live continuously for a year or more or at least four times in the last three years.

Current tenant income limit: 60 percent of the Minneapolis/Saint Paul Metropolitan Statistical Area median income (AMI), with priority for proposals at 30 percent of AMI.

Maximum assistance amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

ELHIF Capital Funding

- three loans for developments with 145 units assisted
- $2,678,909 total assistance amount
- $18,475 average assistance per unit
- median household income of tenants was $12,000 or 16 percent of statewide median
- 68 percent were households of color

ELHIF Operating Subsidy

- 10 units
- $55,031 total grant amount
- $5,503 average assistance per unit

Minnesota has nearly achieved the goal of funding 4,000 housing opportunities for persons experiencing long-term homelessness by the end of 2015. As of December 31, 2012, the Plan had funded 3,981 new opportunities with a variety of resources, including ELHIF.

As resources have become more scarce, Minnesota Housing has prioritized the use of ELHIF funds to sustain its ongoing commitment to rental assistance and operating subsidy activities.

Proposal for 2014
In the past, Minnesota Housing has prioritized the use of ELHIF funds to sustain its ongoing commitment to rental assistance and operating subsidy activities. In 2014, the Agency will use $1.7 million of ELHIF for straggling one-year contracts, which will be funded for one year to bring them into sync with the Agency's two-year contracts.

Under the 2013 AHP, the Agency entered into two-year contracts for its rent assistance and operating subsidies. As shown in the following table, a portion of the 2013 two-year contracts will cover 2014.

Based on resources available in 2014, Minnesota Housing expects to provide operating subsidies for approximately 834 units under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular - New	$705,404
Regular – Carry Forward	$1,013,596
Revolving	
Funding for New Contracts	$1,719,000
Adj. to spread two-year contracts over two years	$1,701,271
2014 Total Program Activity	$3,420,271
2013 Original Total	**$3,364,781**

Legal Authority: This fund operates under the Housing Trust Fund Rules. Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769

Bridges

Bridges is a tenant-based voucher program that operates in selected counties throughout the state, administered by local housing organizations. Grants provide temporary rental assistance and security deposits on behalf of participants with a serious mental illness. Payments are paid directly to landlords and tenants are responsible for their portion of the rent, equal to 30 percent of their income. Participants are required to be on a waiting list or eligible for a permanent rent subsidy, typically a Section 8 Housing Choice Voucher. The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of the program.

Current tenant income limit: 50 percent of area median income

Maximum assistance amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing funded:

- 611 households
- $2,194,184 assistance amount
- $5,399 average assistance per household
- median household income of tenants was $9,000 or 13 percent of statewide median
- 31 percent were households of color

Proposal for 2014
Under the 2013 AHP, Minnesota Housing entered into two-year contracts for Bridges. As shown in the following table, a portion of the 2013 two-year contracts will cover 2014.

In addition, Minnesota Housing will enter into $400,000 of additional contracts to supplement the 2013 contracts.

Based on resources available in 2014, Minnesota Housing expects to assist an estimated 662 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$400,000
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
Funding for New Contracts	$400,000
Adj. to spread two-year contracts over two years	$2,711,500
2014 Total Program Activity	$3,111,500
2013 Original Total	**$3,513,771**

Legal Authority: Minn. Stat. §462A.2097; Minn. Rules, Parts 4900.3000-3050

Section 811 Demonstration

This new federal demonstration program provides project-based rental assistance to participating states for the development of integrated, cost-effective supportive housing units. The pilot program will structure state level partnerships that link housing and community-based services. The goals of the demonstration are to:

- Increase housing opportunities for people with disabilities;
- Transition people with disabilities from institutions to community-based settings;
- Reduce public costs of homelessness and institutional care;
- Create a centralized outreach and referral system; and
- Develop new service linkages.

Minnesota Housing will implement this demonstration in partnership with the Minnesota Department of Human Services (DHS). DHS will recruit and coordinate referrals for eligible households and provide service linkages.

The demonstration will be a key tool with which to support the goals of the Olmstead Plan to provide integrated housing options for people with disabilities. It is a unique opportunity to expand supportive housing for people with disabilities through the leveraging of Medicaid resources for services in supportive housing.

Program Performance and Trends
This activity is new in 2014.

Proposal for 2014
Minnesota Housing was awarded funding for 95 units of project-based rent assistance and will issue a Request for Proposals from which the state will select approximately 10 - 12 developments in 2014. Staff expect to achieve approximately 30 percent utilization during the 2014 AHP, assisting an estimated 28 units.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$80,000
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$80,000
2013 Original Total	**$0**

Legal Authority: 462A.05, subds. 6, 11, and 12; 462A.06, subd. 6

Family Homeless Prevention and Assistance Program (FHPAP)

The Family Homeless Prevention and Assistance Program (FHPAP) assists families with children, unaccompanied youth, and single adults who are homeless or are at imminent risk of homelessness. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters, eliminating repeat episodes of homelessness, and assisting individuals and families experiencing homelessness to secure permanent affordable housing. The program assists extremely low-income people at a low assistance amount per household, primarily through short-term tenant-based assistance (limited to 24 months and most typically less than three months).

Grant funds are awarded through a competitive application process. In the Minneapolis/Saint Paul seven-county area, only counties are eligible to apply for funding. In Greater Minnesota, eligible applicants include counties, groups of contiguous counties jointly acting together, or community-based nonprofit organizations with a sponsoring resolution from each of the county boards of the counties located within their operating jurisdiction. FHPAP grants encourage and support innovations at the county, region, or local level to work toward a seamless and comprehensive homelessness response system.

All grantees are required to use Minnesota's Homeless Management Information System (HMIS) to collect household data and complete program reports to be submitted to Minnesota Housing. Data collected through the Homeless Management Information System (HMIS) indicate that less than five percent of assisted household returned to shelter within six months of exiting this program.

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing reported:

- 7,785 households
- $5,953,081 funding amount
- $765 per household average assistance amount
- median household income was $9,000 or 12 percent of statewide median
- 57 percent were households of color

FHPAP grantees have implemented a variety of homeless prevention and stabilization activities including rent or mortgage assistance, utility assistance, and an array of support services to assist people to stay in their homes or secure housing. As of the end of 2012, 47 percent of funds allocated to providers were used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 45 percent of funds were used for support services; and 8 percent of funds were used for program administration.

Proposal for 2014
Based on resources available for new activity in 2014, this program is expected to assist an estimated 9,828 households during the year.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$0
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
Funding for New Contracts	$0
Adj. to spread two-year contracts over year years	$7,862,000
2014 Total Program Activity	$7,862,000
2013 Original Total	**$7,465,000**

Legal Authority: Minn. Stat. §462A.204

Housing Opportunities for Persons with AIDS (HOPWA)

The Housing Opportunities for Persons with AIDS (HOPWA) program funds grants for housing assistance and services to meet the housing needs of persons with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status, or related diseases and their families. The U.S. Department of Housing and Urban Development allocates HOPWA funds to local jurisdictions. The City of Minneapolis receives and administers a direct grant for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. Minnesota Housing receives a direct award for the portion of the state not covered by the City of Minneapolis grant and contracts with the Minnesota AIDS Project to administer these funds.

Current tenant income limit: 80 percent of area median income adjusted for family size

Maximum assistance amount: none beyond funding availability

Program Performance and Trends
For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing assisted:

- 153 households
- $126,808 assistance amount
- $829 average assistance per household
- median household income was $16,000 or 21 percent of statewide median
- 44 percent were households of color

Proposal for 2014
There are no proposed changes to how the program will operate. Based on resources available for new activity in 2014, Minnesota Housing expects to assist an estimated 149 households under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$139,245
Carry Forward of Unobligated Balances from Previous Plans	$0
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$139,245
2013 Original Total	**$142,672**

Legal Authority: Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12901-12921; 24 C.F.R. Part 574

Asset Management

Asset Management finances interest and non-interest bearing amortizing and deferred loans as well as rent subsidy grants. Developments may be eligible for funding from this account if reserves are inadequate to fund capital improvements. Loans provide funding necessary for repairs and maintenance to protect properties in the Agency's loan portfolio and ensure that developments are decent, safe and sanitary.

Owners receiving assistance with these funds must agree to extend/renew the Section 8 Housing Assistance Payment Contract or accept similar project-based replacement benefits for a minimum of ten years beyond the current commitment to the program.

Minnesota Housing also may use these funds to pay for costs incurred when a property goes into default and eventually becomes Real Estate Owned (REO) by the Agency. Holding costs such as legal representation for the Agency, taxes and insurance, other operating costs, capital improvements necessary to market the property, and loan losses are paid with resources allocated to this program. The funds also are used to stabilize troubled developments that, had they become REO, would have cost the Agency more in losses than the total cost of stabilizing them.

Program Performance and Trends

For the period of October 1, 2011 – September 30, 2012, the Agency funded:

- two loans to assist 198 units
- $1,312,341 total loan amount
- average loan of $656,171
- average $6,628 assistance per unit

Minnesota Housing provided limited funding under Asset Management during the 2013 AHP period, as guidelines and processes for the deployment of the program were not clearly established. Clarified guidelines suggest greater activity during the 2014 AHP. Staff will identify target properties and market the availability of this resource to ensure its full utilization in the preservation of existing properties.

Proposal for 2014

Based on resources available for new activity in 2014, Minnesota Housing expects to fund 200 units.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$3,000,000
Revolving	
2014 Total	$3,000,000
2013 Original Total	**$3,100,000**

Legal Authority: Minn. Stat. §462A.05, Subd. 3

Asset Management Financing Adjustment Factor (FAF)/ Financing Adjustment (FA)

Financing Adjustment Factor (FAF) and Financing Adjustment (FA) financing comes to the Agency as a result of an agreement between the U.S. Department of Housing and Urban Development and Minnesota Housing to share in the savings resulting from refunding high interest rate bonds. Minnesota Housing originally issued the bonds in 1980 through 1983 to finance Section 8 developments.

FAF/FA funds deferred maintenance and operating subsidies for eligible properties. Minnesota Housing makes these funds available in interest and non-interest-bearing amortizing loans, deferred loans or grants, as well as rent subsidy grants. Owners receiving assistance with these funds must agree to extend/renew the Section 8 Housing Assistance Payment Contract (HAP) or accept similar project-based replacement benefits for a minimum of ten years beyond the current commitment to the program.

Program Performance and Trends
From October 1, 2011 – September 30, 2012, Minnesota Housing closed:

- three FAF/FA loans to assist 72 rental units
- $1,318,064 total loan amount
- average loan was $439,355 or $18,306 assistance per unit

Minnesota Housing provided limited funding under FAF/FA during the 2013 AHP period, as guidelines and processes for the deployment of the program were not clearly established. Clarified guidelines suggest greater activity during the 2014 AHP. Staff will identify target properties and market the availability of this resource to ensure its full utilization in the preservation of existing properties.

Proposal for 2014
Based on resources available for new activity in 2014, Minnesota Housing expects to finance an estimated 233 units under this program.

Program Funding by Source

Source	Amount
Federal Funds	
New Funds	
Carry Forward of Unobligated Balances from Previous Plans	$3,500,000
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$3,500,000
2013 Original Total	**$3,360,090**

Legal Authority: Minn. Stat. §462A.05, Subd. 11

Economic Development and Housing/Challenge (EDHC) – RFP

The Economic Development and Housing/Challenge Program (EDHC) provides grants or loans for the purposes of construction, acquisition, rehabilitation, permanent financing, interest rate reduction, refinancing, and gap financing. Funds are used to support economic development or job creation activities within a community or region by meeting locally identified housing needs for both renter and owner-occupied housing. Deferred loans are typically provided at no or low interest; Minnesota Housing requires that most affordability gap financing awards be provided in the form of loans repayable to the Agency.

The program is designed to provide housing affordable to the local workforce based upon the wages of the jobs being created or retained in the area, fastest growing jobs in the local area, and jobs with the most openings in the local area, or wages of the workforce employed by organizations making contributions under the program.

The Multifamily and Single Family divisions allocate these state-appropriated EDHC resources to competitive proposals submitted through the Request for Proposals (RFP) process. Staff rank and score proposals according to EDHC selection standards and Minnesota Housing's strategic priorities.

EDHC loans may be made to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations, or owners of housing (including individuals) for both multifamily (minimum of four units) and single family projects. EDHC requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources.

2013 income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Maximum loan amount: None beyond funding availability

Program Performance and Trends

RFP funding for single family housing is available under the Community Homeownership Impact Fund (formerly known as Community Revitalization Fund or CRV). This fund is the umbrella program for EDHC and two interim construction financing programs (Partnership for Affordable Housing and Innovative Housing) for homeownership activities.

For the Program Assessment period of October 1, 2011 – September 30, 2012, under the RFP funding for EDHC, Minnesota Housing funded:

Multifamily EDHC

- loans to 12 developments with 714 units
- $9,306,238 total loan amount
- $13,034 average EDHC assistance per unit
- median household income of $20,000 or 27 percent of statewide median
- 60 percent were households of color

Single Family EDHC

- 244 loans
- $4,910,395 total loan amount
- $20,125 average loan
- median household income was $35,000 or 48 percent of statewide median
- 40 percent were households of color

Proposal for 2014

The level of funding requested reflects available resources and is lower than in the 2013 AHP because the Minnesota Legislature did not make funds available through Housing Infrastructure Bonds.

Based on resources available for new activity in 2014, Minnesota Housing expects to fund an estimated 1,115 units under the EDHC RFP.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$14,203,000
Carry Forward of Unobligated Balances from Previous Plans	$2,874,907
Repayments and Receipts	$250,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$17,327,907
2013 Original Total	**$31,489,227**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

EDHC – Twin Cities Community Land Bank and Family Housing Fund

Minnesota Housing provides two revolving lines of credit, one to the Twin Cities Community Land Bank (TCCLB) and one to the Family Housing Fund (FHF), under the Economic Development and Housing/Challenge Program. TCCLB uses funds for foreclosure recovery and neighborhood stabilization. FHF uses funds for acquisition, interim financing, new construction, and land banking.

Program Performance and Trends

For the Program Assessment period of October 1, 2011 – September 30, 2012, data available for the MyHome Source component of the TCCLB allocation showed Minnesota Housing resources financed:

- 43 homes
- $5,810,586 total loan amount
- $135,130 per home
- median household income of homebuyers was $56,991
- 18 percent were households of color

Proposal for 2014

Given market conditions and a better understanding of how these funds are being used, Minnesota Housing is projecting a lower level of activity than it originally projected for 2013.

Based on resources available for new activity in 2014, Minnesota Housing expects TCCLB/FHF to fund an estimated 68 homes.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$8,500,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$8,500,000
2013 Original Total	**$12,000,000**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

EDHC – Community Owned Manufactured Home Parks

The Agency is a participating lender investing in loans made by Resident Owned Capital, LLC (ROC-USA) a national non-profit. ROC-USA loans that are made to resident manufactured home cooperatives enable them to purchase, own, and manage the parks that they occupy. ROC-USA acts as a lead lender and is responsible for loan servicing and loan origination and takes a lead role in due diligence review. In addition, ROC-USA contracts with Northcountry Cooperative Foundation (NCF), a local non-profit, to engage cooperatives in development activities, such as organizing the cooperative entity and contracting for third party reports. NCF is retained after closing to provide ongoing technical assistance to the cooperative.

Program Performance and Trends

ROC-USA and NCF are marketing this program, for which activity has been slower than anticipated. For the Program Assessment period of October 1, 2011 – September 30, 2012, Minnesota Housing committed one $1.2 million loan to a park in Lindstrom, Minnesota.

Proposal for 2014

Although no applications are pending at this time, staff recommended that Minnesota Housing allocate a small amount of Pool 2 funds (an estimated 80-unit park) to be used should a proposal materialize.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	$2,000,000
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$2,000,000
2013 Original Total	**$2,000,000**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652

Technical Assistance and Operating Support

The Agency's Technical Assistance and Operating Support Fund provides organizational-support funding to entities providing affordable housing and housing-related services. The Agency contracts with intermediary organizations to deliver a large portion of the program funds to eligible organizational recipients. It also provides grants for projects that have an important State or regional impact and are consistent with the Minnesota Housing's mission. Grants may be used for projects that are research-oriented, that require external expertise to supplement existing staff, or that develop or support infrastructure related to the Agency's strategic priorities.

Program Performance and Trends

Examples of expenditures include contributions to: 1) the statewide counseling network through the Home Ownership Center, 2) the Wilder Statewide Survey of Homelessness, 3) the maintenance of and expansion of the database and processing system by HousingLink to provide affordable rental housing vacancy information statewide, 4) the state's Homeless Management Information System (HMIS), 5) regional Continuum of Care planning, 7) the evaluation of updated national Green Communities criteria, and 8) assistance with the refinement and implementation of new initiatives.

Proposal for 2014

Under the 2014 Plan, funds will be made available for a variety of operating support and technical assistance needs including continued support for the Minnesota Home Ownership Center, HMIS, and HousingLink. Twin Cities Local Initiatives Support Corporation (LISC), Duluth LISC, and the Minnesota Housing Partnership will provide operating support to other housing providers. Minnesota Housing will continue to refine Community Housing Development Organization (CHDO) support to ensure a strong network of housing development non-profits to serve Greater Minnesota communities.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	$375,000
Carry Forward of Unobligated Balances from Previous Plans	$85,920
Repayments and Receipts	
Contributions from Other Organizations	$30,000
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$2,250,000
Revolving	
2014 Total	$2,740,920
2013 Original Total	**$2,515,971**

Legal Authority: Minn. Stat. §462A.07, Subd. 6; Minn. Stat. §462A.21, Subd. 3b; Minn. Rules, Parts 4900.1931-1937; 42 U.S.C. §12701 et seq.; 24 C.F.R. Part 92;

Non-Profit Capacity Building Loan Program

The Non-Profit Capacity Building Loan Program assists non-profit organizations, tribal councils, and local units of government in the development of housing projects for low-and moderate-income people. These short-term loans are used for pre-development costs such as architect fees, attorney fees, options on land and buildings, and other costs associated with the processing or preparations of a housing proposal. The program is a revolving loan fund delivered through administrators. The Greater Metropolitan Housing Corporation and the Local Initiatives Support Corporation (Minneapolis/Saint Paul) serve the seven-county Twin Cities area while the Minnesota Housing Partnership and the Local Initiatives Support Corporation (Duluth) serve the balance of the state. Individual loans are selected and underwritten by the administrators with results reported to Minnesota Housing.

Maximum loan amount varies by administrator. Loans typically are for two-year terms at an interest rate set by the administrator. Current tenant income limit: 80 percent of statewide median income.

Program Performance and Trends
This program, which achieves nearly a 1:1 match from our administrators, was established as a revolving loan program with repayments supporting new loan production. The program supports the Agency's interest in the development or expansion of the capacity of non-profit housing providers.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	$1,000,000
2014 Total	$1,000,000
2013 Original Total	**$1,000,000**

Legal Authority: Minn. Stat. §462A.21, Subd. 3a; Minn. Rules, Parts 4900.1925-1930

Strategic Priority Contingency Fund

This was a new line item in the 2013 AHP. During any given year, Minnesota Housing anticipates that some programs are likely to need additional resources. To be more nimble and responsive, the Agency has set aside contingency funds to meet unexpected needs.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	$2,000,000
Revolving	
2014 Total	$2,000,000
2013 Original Total	**$2,000,000**

Administrative Expenses (HOME)

HOME program regulations allow Minnesota Housing to recover the costs incurred in administering the program, subject to certain Federal restrictions regarding what constitutes allowable costs and subject to the restriction that reimbursed administrative costs cannot exceed 10 percent of the Federal appropriation. Agency administrative expenses are limited to Agency overhead and administrative fees paid to local administrators.

Program Performance and Trends
The Agency traditionally has allocated six percent of its HOME funds to overhead. The Agency's allocation of HOME funds to additional activities in recent years (e.g., monitoring of HOME rental developments brought in-house), has contributed to increased administrative costs.

Proposal for 2014
New allocations of HOME funds will not occur until the annual appropriations are decided, which will most likely be in the spring of 2014. This Affordable Housing Plan assumes that the amount of new appropriations is the same as the 2013 appropriation of $5.9 million; this is subject to change pending actual receipt of the funds.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	$592,222
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$592,222
2013 Original Total	**$615,415**

Legal Authority: Title II of the Cranston-Gonzales National Affordable Housing Act 1990; 42 U.S.C. §12701, et. seq.

Manufactured Home Relocation Trust Fund

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay $12 per licensed lot into the Trust Fund each year. The owner of the manufactured housing park is authorized to recoup the $12 from the manufactured homeowner either monthly or in a lump sum. The Trust Fund is available to manufactured home owners who have to relocate because the park they are living in is being closed. The statute sets out the process for determining how much money a homeowner is eligible for and maximum amounts. Only those home owners who paid into the Trust Fund are eligible to receive payment. Funds are paid to Minnesota Management and Budget for deposit in the Trust Fund held by Minnesota Housing. Minnesota Housing's role is to make payments as directed by a neutral third party for the costs of relocation. Minnesota Housing is not responsible for paying claims if there are insufficient funds in the Trust Fund.

Program Performance and Trends
The fund balance is more than $1.2 million as of March 31, 2013. State law was amended in 2011 to suspend collection of the fee if the balance in the account is equal to or exceeds $1 million; therefore, no receipts are anticipated for 2014.

Proposal for 2014
It is difficult to predict the level of demand for these funds given the limited experience to date. One park closing is anticipated in 2014 with an undetermined number of eligible claims to be made.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$1,279,536
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$1,279,536
2013 Original Total	**$1,279,536**

Legal Authority: Minn. Stat. §327C.095

Flood Disaster

Flood Disaster response programs provide funding for repair or replacement of renter or owner-occupied housing damaged by a natural disaster such as a flood or tornado. Minnesota Housing implemented the original Flood Economic Development and Housing/Challenge Program to address flood damage in southeastern Minnesota that occurred in August of 2007. Subsequent Minnesota Legislature appropriations have included $2.7 million to address the 2009 Red River Valley flood, $4 million for the 2010 southern Minnesota flood, and $12.7 million for flood and wind damage in northeastern Minnesota in 2012. Local administrators under contract to deliver ongoing Agency programs typically deliver disaster relief to impacted areas through the single family Quick Start Disaster Recovery Program or through multifamily rental repair and homeless response programs.

Program Performance and Trends
Over the past six years, Minnesota has seen significant disasters that have required activation of Quick Start and other Agency housing assistance every 14 months. These have typically been funded by special appropriation from the Minnesota Legislature following a federal disaster declaration and determination of the level of available federal funding from the Federal Emergency Management Agency.

For the program assessment period October 1, 2011 – September 30, 2012, the Agency provided funding for:

- 32 single family units
- $410,597 total loan amount
- $12,831 average per unit

Proposal for 2014
The request level for new funding in this AHP is $0, as no assumption or prediction is made for a disaster event within the plan year. Unused or repaid Flood Disaster funds may be placed in the Disaster Relief Contingency Fund.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$0
Repayments and Receipts	
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$0
2013 Original Total	**$12,720,000**

Legal Authority: Minn. Stat. §462A.33; Minn. Rules, Parts 4900.3600-3652 and Minn. Stat. §12A.09

Disaster Relief Contingency Fund

This fund was established by the 2001 Minnesota Legislature as the account into which the Agency would deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are to be used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas that are covered by a presidential declaration of disaster. The terms and conditions under which the funds are made available are at the Agency's sole discretion.

Program Performance and Trends
Use of funds includes capacity building grants for disaster response and flood insurance payments. No funds were committed under the 2013 AHP from this fund.

Proposal for 2014
New program terms will determine the number of households to be assisted with contingency fund resources.

Based on resources available for new activity in 2014, Minnesota Housing could fund an estimated 86 units through the Disaster Relief Contingency Fund.

Program Funding by Source

Source	Amount
Federal Funds	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	
State Appropriations	
New Appropriations	
Carry Forward of Unobligated Balances from Previous Plans	$1,619,357
Repayments and Receipts	$100,000
Contributions from Other Organizations	
State GO & Infrastructure Bond Proceeds	
New Funding	
Carry Forward of Unobligated Balances from Previous Plans	
Agency Bond Proceeds & Other Mortgage Capital	
Housing Investment Fund (Pool 2)	
Housing Affordability Fund (Pool 3)	
Regular	
Revolving	
2014 Total	$1,719,357
2013 Original Total	**$978,000**

Legal Authority: Minn. Stat. §462A.21, Subd. 29; Laws of Minnesota 2003, Chap. 128, Art. 10, Sec. 4, Subd. 2

Minnesota Housing Finance Agency

AGENDA ITEM: 7.B.
MINNESOTA HOUSING BOARD MEETING
September 26, 2013

ITEM: Approval, Changes, Rehabilitation Loan Program Procedural Manual and Emergency and Accessibility Loan Program Procedural Manual

CONTACT: Laurie Kramka, 651-296-3495 laurie.kramka@state.mn.us | Robert Russell, 651-296-9804 robert.russell@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

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

☐ Waiver(s) ☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff is hereby requesting Board approval of the Rehabilitation Loan Program (RLP) Procedural Manual and the Emergency and Accessibility Loan Program (ELP) Procedural Manual.

FISCAL IMPACT:
RLP and ELP are funded with state appropriations and repayments of past Rehabilitation loans. The policy represented in these Procedural Manuals will guide the use of the funds allocated to the programs.

MEETING AGENCY PRIORITIES:

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

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

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Rehabilitation Loan Program Procedural Manual
- Emergency and Accessibility Loan Program Procedural Manual

BACKGROUND:
For more than 30 years, Minnesota Housing has offered the Rehabilitation Loan Program (RLP) and its companion program, the Emergency and Accessibility Loan Program (ELP). These programs provide deferred loan financing to low-income homeowners needing to rehabilitate their existing residential housing for the purpose of improving its safety, habitability, or energy efficiency. RLP is a compliment to loan programs available in the private sector and fills the financing gap that exists between homeowners who are able to secure home improvement financing in the private sector and those homeowners who are unable to do so. ELP provides funds on an emergency basis for homeowners to address immediate safety and accessibility issues.

Earlier this summer, staff hosted a series of Lender Listening Sessions across the State to obtain recommendations and feedback from RLP lenders on ways to increase fund usage efficiency and bring the RLP into better alignment with its statutory objectives. The Lender Listening Sessions resulted in three major action items which are discussed further below but, in brief, are: (1) increase clarity in the RLP Procedural Manual; (2) better align of the language in the RLP and ELP Procedural Manuals; and (3) increase leveraging of other available resources through a referral mechanism.

Lenders offered many suggestions on how to refine existing Program requirements. They also asked Minnesota Housing to provide increased clarity on eligible and ineligible rehabilitation improvements. The proposed changes to the RLP reflect many of the lender recommendations and have been incorporated into the attached RLP Procedural Manual:

- <u>To provide clarity about the RLP's core objective</u>. The RLP Procedural Manual will define the terms: "safety," "habitability" and "energy efficiency". Additionally, "livability" will be removed from the Procedural Manual and only "habitability" will be used in order to reduce confusion. See the **Introduction Section** of the Procedural Manual.

- <u>To clearly define eligible rehabilitation improvements</u>. See **Section 4.12** of the Procedural Manual. Eligible improvements are listed under three separate categories:
    1. Basic *improvements which do not require advanced approval* from Minnesota Housing. This broad list addresses deficiencies related to accessibility, safety, lead based paint hazards, elevated radon levels, energy efficiency, structure, plumbing, heating, ventilation, air conditioning, electrical, exterior envelope, drainage and moisture.
    2. Additional *improvements which require advanced approval* from Minnesota Housing and are eligible under specifically defined circumstances. These improvements include items such as: the replacement of cabinets and countertops; repairs on existing garages; demolition of outbuildings; and construction or reconstruction of sidewalks and driveways. The lender must supply documentation to demonstrate the need for repair or replacement.
    3. *Home additions which require advanced approval* from Minnesota Housing and are eligible under specifically defined circumstances. Home additions are mainly intended to address issues related to accessibility and over-crowding. Lenders must provide documentation which demonstrates the need for additional, finished living space. They must also demonstrate that alternative remedies have been evaluated, but are not feasible.

- <u>To provide a clear definition of the rehabilitation improvements that are not eligible</u>. See **Section 4.13** of the Procedural Manual. Staff recommends broadening the list of defined items to include hard-wired microwave ovens, installation of decorative trim (unless replacement is required for lead based paint hazard mitigation), and installation of dishwashers. Although these improvements have never been permitted under the RLP, defining them in the Procedural Manual as ineligible will increase clarity for RLP lenders.

- To increase borrower choice in the improvements made to their properties while reducing the amount they must borrow. Currently, the RLP requires properties to meet Minnesota Housing's Single Family Rehabilitation Standard to the greatest extent possible given the funding available. This has the effect of forcing borrower's to borrow more than they had originally intended. As a way to balance the intent of the RLP with the desire to reduce borrower debt load, staff is proposing that properties be free of deficiencies that will cause further damage to the home. See **Section 4.14** of the Procedural Manual. As such, borrowers must also continue to install smoke and carbon monoxide alarms per State Building Code requirements, address all lead based paint hazards, and mitigate elevated radon levels.

- To refine the change order process**.** In order to reduce budgeting difficulties and reduce the likelihood of projects deviating too far from the original scope of work, staff recommends greater oversight on the change order process. See **Sections 4.09 and 5.02** of the Procedural Manual. First, staff proposes that changes to the scope of work be approved in advance by Minnesota Housing in order to ensure sufficient funds are available to cover the added costs. Second, staff proposes to limit changes in the scope of work only to situations where unanticipated deficiencies found during rehabilitation which will cause further damage to the home if not addressed.

Lender feedback made it clear to staff that more consistent language was needed between the RLP and ELP Procedural Manuals. As a result, staff has made the necessary changes ELP Procedural Manual. None of the changes were substantive.

Minnesota Housing staff will look for ways to maximize RLP funds through a more intentional use of leverage resources. Many of the Housing Dialogues the Agency has and continues to host across the State have revealed other funding sources –some underutilized – that would pair well with the RLP. Thus, in the upcoming year, staff recommends developing some referral mechanism to other funding sources.

Staff is currently in discussion with several other funding organizations, including:

- The Minnesota Department of Health regarding their Lead Hazard Grant and Healthy Homes funds;
- USDA Rural Development regarding their 504 Direct Program, which provides grant funding for borrowers aged 62 years and over; and
- The Minnesota Department of Employment and Economic Development regarding their Small Cities Development Program.

Additionally, staff may approach the Minnesota Pollution Control Agency to possibly find ways to leverage their Septic System grant program.

Staff will work to develop and implement a process which facilitates ease and efficiency in referring borrowers to other available funding sources. Details surrounding data privacy and shared program documentation all need to be thought through. Staff will address this in the upcoming year.

Minnesota Housing
Finance Agency

Rehabilitation Loan Program
Procedural Manual

September 27, 2013

Table of Contents

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 safety[1], habitability[2] livability, or energy efficiency[3] 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 Tennessen Warning and the Privacy Act Notice when requesting private data[4]; 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 discounts[5] 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-deed[6]; or
- A recorded life estate, excluding remaindermen[7]

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;

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[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.

- 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 Requirements[8]

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 townhome[11]; 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.

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[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;

- 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 assessments[12;]
- 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;
- 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.

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

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."

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

Emergency and Accessibility Loan Program Procedural Manual

September 27, 2013

Table of Contents

Introduction

Mission Statement

The Minnesota Housing Finance Agency ("Minnesota Housing") is committed to meeting Minnesotans' needs for decent, safe, affordable homes and stronger communities.

Background

Minnesota Housing was created in 1971 by the Minnesota Legislature.

Minnesota Housing created the Emergency and Accessibility Loan Program (the "Program") to finance repairs resulting from situations or conditions that could cause or have caused a home to become uninhabitable. The needs of low income homeowners, those with emergency financing needs and those with a Disabled Household Resident were considered when the Emergency and Accessibility Loan Program was designed. Income limits for the Program were established to target households with the greatest need.

Procedural Manual

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

Emergency and Accessibility Loan Program

Deferred, zero percent interest Program Loans are available to low income single family homeowners through participating Lenders. These loans address Emergency Conditions in the home or essential Accessibility Improvements for a Disabled Household Resident.

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 Minnesota Housing programs 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 administrative costs and other fees or commissions received by the Lender 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 Compliance with Privacy Act Statutes

The Minnesota Government Data Practices Act:

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

[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.

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 discounts[2] 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;

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

- 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 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 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, Lender also warrants and represents that it:

- 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 is contracted under the Rehabilitation Loan Program;
- 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 to 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.
  - 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 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 Program loan purchased by Minnesota Housing:
- At a rate of 10% of the loan amount, capped at $1,200 per loan; and
- Lead paint risk assessment costs if a household resident has an Environmental Intervention Blood Lead Level (EIBLL).

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 Program 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 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;
- A mobile/manufactured home taxed as real property;
- A mobile/manufactured home taxed as personal property and located in a mobile 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 interest by any form of trust; and
- Ownership interest 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 Emergency and Accessibility Loan Program Application

All Borrowers must apply for the Program through approved Lenders using the Minnesota Housing Borrower Application.

2.07 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 has been identified.

2.08 Minnesota Housing Program Eligibility Income

Gross annual household income is the gross annual projected household income verified within 120 days of the application date 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 years of age) and before taxes or withholdings – less deductible medical expenses allowed. (See Income Eligibility Calculation Worksheet.) The Minnesota Housing maximum gross household income cannot exceed the amounts listed on Minnesota Housing's Website.

[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 projected household income includes:

- Salary, commissions, bonuses, tips, earnings from part-time employment;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation and sick pay;
- Net rental income, income received from business activities or investments;
- Alimony, 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.

2.09 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 Requirements[5]

Borrower must be:

- Current on mortgage loan payments and up to date on real estate taxes.
- 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 Program 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, employees and/or their families as well as to builders, realtors and/or their families, and any other principal with whom the Lender does business. Minnesota Housing employees and/or their families are eligible subject to approval by the Minnesota Housing Board of Directors. The Borrower must satisfy all eligibility criteria for the Program.

[5] 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 may include any of the following property types:

- A single family detached home;
- A duplex[6];
- An eligible unit in a Planned Unit Development (PUD);
- A unit of a condominium[7];
- A townhome[8]; or
- Certain mobile/manufactured homes (as outlined in Section 2.04).

3.02 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).

3.03 Property Inspections

The Lender must conduct inspections of the property as follows:

- The first inspection determines the property's emergency conditions or essential accessibility needs 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 Lender may conduct additional inspections as work is completed.

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

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[6] The Borrower must occupy one unit of a duplex property.

[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.

[8] 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.

3.04 Local Ordinances and Plans

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

Chapter 4 – Loan/Rehabilitation Eligibility

4.01 Eligible Loans

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

4.02 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 may be included in the loan amount as long as Program loan amount maximums are not exceeded.

4.03 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.

4.04 Loan 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 Principal Residence.

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

4.06 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. In the event there are changes in the loan amount, the Lender must follow the requirements outlined in Section 6.02 of this Procedural Manual.
- 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.

4.07 Title Verification

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

- The legal description of the subject property;
- The Borrower's ownership interest, and any existing liens. Title investigation may be conducted by the Lender 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 Rehabilitation Requirements

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

- Prior to the start of rehabilitation, the property must be inspected and determined to be eligible under the Program.
- All proposed rehabilitation must be outlined in a written scope of work and must correct the emergency and accessibility needs 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 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 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 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.

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 not permitted under the Program.

4.12 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; included 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 that could cause the home to be or become uninhabitable will be considered by Minnesota Housing on a case-by-case basis.

Lead-based paint guidelines do not apply to Emergency and Accessibility Loans unless the repairs were necessitated by a lead paint health hazard.

4.13 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 noncompliant loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Lender to repurchase the loan for the purchase price;
- Terminate, suspend, or otherwise limit the Lender's Participation Agreement with Minnesota Housing; or
- Preclude the Lender from future participation in Minnesota Housing programs.

4.14 Repurchase of Loans

Minnesota Housing may, at its option, tender any loans 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, and / 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 such as:

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

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 Lender. It is expected that the loan will be submitted to gain a Purchase Approval status via the Loan Commitment System.

5.01 Requesting a Commitment

Once Lender has determined that a Borrower meets the loan requirements, an Individual 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 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 is still valid.

5.02 Modifying a Commitment

- Any change to a commitment must meet eligibility requirements and be submitted via the Loan Commitment System to qualify.
- Any qualifying commitment change will not alter the commitment period of the original commitment.
- Changing the Borrower(s) and/or the property address on a committed loan is not permitted.
- An increase to the loan amount will be permitted only if funds are available.

5.03 Canceling a Commitment

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

5.04 Transfer of Individual Commitments

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

- Lender requests in writing a transfer of the commitment to a different Lender and documents the reason;
- The new Lender must be an approved participant in the Program; and
- 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 and subsequently request funds for the same Borrower/property.

5.06 Minnesota Housing Loan Purchase/Disbursement of Funds

Minnesota Housing will purchase loans with a status of Purchase Approval by the daily cutoff time, Monday through Friday, except for State observed holidays.

Emergency and Accessibility loans will be disbursed in one (1) disbursement to the Lender. Upon gaining Purchase Approval via the Loan Commitment System, 100% of the loan amount and administrative fee will be disbursed within two business days.

A Lender Certificate detailing purchase transaction details will be available only via the Loan Commitment System.

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 Lender for any funds to be returned or disburse additional funds to Lender.

Chapter 6 – Documentation Requirements

6.01 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 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 amend the original Recorded Mortgage to reflect the correct, final loan amount as follows:

Properties Taxed as Real Property

- Note and Mortgage – The Modification of the 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 and be recorded.

Manufactured Homes Taxed as Personal Property

- Note and Mobile Home 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 Loan Transmittal form detailing 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. Minnesota Housing may also, at its discretion, extend the timeframes.

6.04 Records Retention

Lender must retain any and all documents (including compliance with Minnesota Housing's 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;
- 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.

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

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, 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 or a Borrower with a permanent physical or mental condition that substantially limits one or more major life activities to function in that 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.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.

Lender	A nonprofit, governmental entity, or other organization designated by Minnesota Housing that has as a primary purpose the provision or development of affordable housing to low income persons or households in Minnesota, with which Minnesota Housing, in its sole discretion, enters into a contract agreement for local administration of the Program.
Minnesota Housing Program Eligibility Income	Income used to meet the requirements of this Procedural Manual.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Rehabilitation	Necessary repairs to be completed on the Borrower's property.

Appendix B: Forms List

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

Minnesota Housing Finance Agency

AGENDA ITEM: 9.A
MINNESOTA HOUSING BOARD MEETING
September 26, 2013

ITEM: Report of Complaints Received by Agency or Chief Risk Officer

CONTACT: Will Thompson, 651-296-9813, will.thompson@state.mn.us
Paula Beck, 651-296-9806, paula.beck@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

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

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency and the Chief Risk Officer have developed procedures for the receipt, retention and treatment of complaints received by the Agency or the Chief Risk Officer regarding conflict of interest, misuse of funds and fraud that have been submitted by any person external or internal to the Agency.

Update from the Chief Risk Officer regarding complaints of potential conflict of interest, misuse of funds and fraud that have been reported to the Agency or the Chief Risk Officer since the Board adopted Reporting Non-Compliance with Agency Policy and Procedures on January 27, 2011.

FISCAL IMPACT:
There were 24 instances of conflicts of interests, misused funds and fraudulent activity for the 33-month period beginning December 2010 and ending August 2013. A total of $154,407 was not recovered: ($138,201 in misused funds (an increase of $22,933 from last quarter), and $16,206 in fraudulent activity (unchanged from last quarter).

MEETING AGENCY PRIORITIES:

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

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

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT:
Reporting Non-Compliance with Agency Policy and Procedures.

Reporting Non-Compliance with Agency Policy and Procedures

This reporting is designed to convey to the Board any complaints received, their current status, and their resolution, if one has been reached.

An updated report will be delivered to the Board quarterly, with the next report due December 19, 2013.

Complaints Received by Agency or Chief Risk Officer

Complaint	Status		
Resolution	Closed	In Process	Grand Total
Conflict of Interest	**3**		**3**
External Employment Approved	1		1
Insufficient Evidence	2		2
Fraud / Embezzlement	**3**	**2**	**5**
Funding Transferred to Different Entity	1		1
HUD Investigation Initiated		1	1
Insufficient Evidence	2		2
FBI Investigation Initiated		1	1
Misuse of Funds	**15**	**1**	**16**
All Funds Returned to Agency	1		1
Insufficient Evidence	3		3
Issue Cured	1		1
Negotiated Settlement	5		5
None – Nonviable Counterparty	1		1
OLA Forwarded Complaint to County	1		1
Revenue Recapture	2		2
Entry of Judgment	1		1
Pursuing Order of Judgment		1	1
Grand Total	**21**	**3**	**24**

Key Trends:

- One new alleged misuse of funds case opened from June 2013 – August 2013
- Three cases were closed from June 2013 – August 2013

Report Legend:

- Complaint – An allegation or inquiry of non-compliance with Agency policy and procedures
- Status – Can be either In Process or Closed
- Resolution – How was the complaint resolved (Closed Status) or current disposition (In Process)