MEETINGS SCHEDULED FOR DECEMBER

Location:

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

THURSDAY, DECEMBER 19, 2013

Regular Board Meeting
State Street – 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, December 19, 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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Equal Opportunity Housing and Equal Opportunity Employment

A G E N D A
Minnesota Housing Finance Agency
Board Meeting
Thursday, December 19, 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 November 21, 2013
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   A. 2014 Meeting Dates
   B. Resolution Relating to State Appropriation Bonds (Housing Infrastructure), Series 2013; Amending Resolution No. MHFA 13-019
7. **Action Items**
   A. Approval, Income Limit Calculation Revisions, Single Family Programs
   B. Continuation of Rental Rehabilitation Deferred Loan Pilot Program
   C. Amendment to the 2014 Affordable Housing Plan (AHP): Rental Rehabilitation Deferred Loan (RRDL) Pilot Program and Rental Rehabilitation Loan (RRL) Program
   D. Selection/Commitment, Asset Management Loan
      - Todd 27, Long Prairie D0710
8. **Discussion Items**
   A. Agency Risk Profile
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, November 21, 2013
2:00 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 regular meeting of the Board of the Minnesota Housing Finance Agency at 2:09 p.m.
2. **Roll Call.**
Members present: Gloria Bostrom, John DeCramer, Joe Johnson, Ken Johnson, Steve Johnson, Stephanie Klinzing, and Rebecca Otto.
Minnesota Housing staff present: Gene Aho, Paula Beck, Don Collier, Jessica Deegan, Vicki Farden, Mark Gavin, Mike Haley, Karen Hassan, Krissi Hoffman, Kurt Keena, Marcia Kolb, Julie LaSota, Jane Loechler, Kim Luchsinger, Diana Lund, Eric Mattson, Washington Nguyen, Jen Oscarson, John Patterson, Luis Pereira, Paula Rindels, Robert Russell, Joel Salzer, Becky Schack, Terry Schwartz, Barb Sporlein, Mary Tingerthal, Katie Topinka, Xia Yang.
Others present: Frank Fallon, Cory Hoeppner, Derek McGreal, Roy Barrish, Michael Baurim, RBC Capital Markets; Chris Flannery and Melanie Lien, Piper Jaffray; Paul Rebholz, Nick Fluehr, Wells Fargo; Joe Tait and Chris Spelbring, Raymond James; Chip Halbach, Minnesota Housing Partnership; Celeste Grant, Office of the State Auditor; Tom O'Hern, Office of the Attorney General.
3. **Agenda Review**
It was announced that the Committee Report would be heard as the first report.
4. **Approval of the Minutes.**
A. Regular Meeting of November 7, 2013
Auditor Otto moved approval of the minutes as written. Mr. Joe Johnson seconded the motion. Motion carries 6-0, with Ms. Bostrom abstaining.
5. **Reports**
A. Chair
There was no chairman's report.
B. Commissioner
Commissioner Tingerthal reported that the Agency has received many reports back from the selections made at the last meeting; many happy developers and some unhappy ones. Staff is scheduling meetings with all applicants and, with those who were not selected, to review how the project scored and how to bring stronger proposals in the future. Media coverage was received on the selections and copies of some articles were provided at members places prior to the meeting. The previous week, the Commissioner, along with Warren Hanson of the greater Minnesota Housing Fund, introduced a new tax credit investor in Minnesota. United Health group has invested in three new developments, the first of which, The Seasons at Ramsey, opened last week. United Health Group has presented bids on a number of other projects and is a newer entry in the tax credit market. The Seasons at Ramsey is the first project completed under the Minnesota Equity Fund. Minnesota had never before had a state specific fund, so the project is groundbreaking. The Fund will have a positive impact and is expected to create stronger bids in Minnesota and in Greater Minnesota in particular. National bidders often bid lower in Greater Minnesota and one hope of the Fund is that it can boost the amount paid for

credits in areas of the state outside of Rochester, Duluth, Twin Cities, etc. Tingerthal stated that housing is a little low-key in the media and, thanks to Communications Director Megan Ryan; the Agency's selections received very good coverage in the Start Tribune and on MPR.

Commissioner Tingerthal asked that members review the schedule of board meetings for 2014 and notify Becky Schack of any conflicts. The schedule for 2014 is the normal schedule of meetings on the fourth Thursday of the month with three meetings held one week early. Commissioner Tingerthal invited members to stay following the meeting for a presentation in recognition of National Hunger and Homelessness Awareness week.

The following employee introductions were made:

- Karen Hassan introduced Washington Nguyen, a new member of the tenant rental assistance voucher team. Mr. Nguyen is a graduate of the University of Minnesota Housing Studies program and interned at the Rondo Community Land Trust as well as the city of Bloomington HRA. Mr. Nguyen was formerly employed at the Metro HRA, where he managed a caseload of more than 400 clients.
- Diana Lund introduced Jen Oscarson. Jen is joining the multifamily underwriting team. Jen has three years of experience at CommonBond Communities and worked with a syndicator for six years previous to that.
- Roger Moeller introduced Maz Haji. Maz, a contractor, will head up software releases and quality assurance in BTS and has seven years experience.
- Marcia Kolb introduced Mark Gavin. A business and IT consultant in Multifamily who will focus on process re-engineering and the Multifamily roadmap. Mark has been employed at General Mills and began his own business as well.
- Ms. Kolb also introduced Suzanne Dilla, a systems manager working in Multifamily.

Commissioner Tingerthal added that Suzanne and Mark are part of a team being assembled to undertake a project that will be a major redesign of the Agency's multifamily lending process and the systems that support it. It has taken a lot of work to get to where the Agency is. The project will be kicked-off in early January with a full team on board. The Agency is also wrapping up a review of a new technology platform on the Single Family mortgage side. Over the past few weeks, staff have been reviewing candidates that have responded to a request for information that will allow the Agency to move forward with a request for proposals. This project has been a long time coming to fruition. Early next year, both projects will be launched and will be the beginning of major changes to come.

C. Finance and Audit Committee of November 21, 2013

Chair Johnson reported that earlier that day the Finance and Audit Committee met. During the meeting, the committee heard a summary of the responses to the RFP for investment banking services from Don Wyszynski and Gene Slater. The committee then interviewed RBC Capital Markets, Morgan Stanley, Piper Jaffray, Wells Fargo Securities and Raymond James. Following the interviews, the committee discussed the proposals and interviews. The committee recommends the retention of RBC Capital Markets as the Agency's senior investment banker for the next four years and Piper Jaffray and Wells Fargo as co-managers. The committee also recommended the retention of the current structure of one senior manager and two co-manager with a third co-manager rotated based on performance. Chair Johnson called for comments from the board and there were none. **MOTION:** Steve Johnson moved to accept the report of the committee and ratify the selection of RBC Capital Markets as senior manager and

Piper Jaffray and Wells Fargo as permanent co-managers and maintaining the process of including a rotating third co-manager. Auditor Otto seconded the motion. Motion carries 7-0.

6. **Consent Agenda**
   A. **Selections, Community Fix-Up Loan Program**
   B. **Operating Subsidy Renewal, Ending Long-term Homelessness Initiative Fund (ELHIF) – Country View Place, Willmar D3871**

   MOTION: Ms. Klinzing moved to approve the consent agenda. Mr. DeCramer seconded the motion. Motion carries 7-0.

7. **Action Items**
   A. **Approval, Program Concept, Targeted Home Improvement Loan Program**

   Robert Russell presented this request, stating that the pilot program would function as a testing ground for programs that serve borrowers who do not meet the requirements of other existing home improvement programs and would address an income service gap. Mr. Russell added that the proposal aligns with the Agencies' funding priorities determined by cooperatively developed plans. Mr. Russell described the key aspects of the proposal. **MOTION:** Mr. Joe Johnson moved approval of the program concept. Mr. Steve Johnson seconded the motion. Motion carries 7-0.

   B. **Approval, Rotation of Independent Auditor Policy**

   Counsel to the Board Tom O'Hern presented this item, stating that it was drafted based on board's discussion. The purpose of the policy is to ensure independence, objectivity and professional skepticism. Mr. O'Hern acknowledged that there is a cost to rotating auditors as well, primarily the loss of institutional knowledge and time of learning needed for a new firm. **MOTION:** Mr. DeCramer moved approval of the policy as written. Auditor Otto seconded the motion. Motion carries 7-0.

8. **Discussion Items**
   A. **Multifamily Preservation: Identifying Needs, Exploring Strategies (PINES) Proactive Preservation Pilot**

   Preservation Manager Julie LaSota presented background information on the PINES preservation pilot, stating she would then lead a discussion with members on any issues or concerns they may have regarding the pilot.

   Ms. LaSota stated that preservation is a named strategy in the Agency's strategic plan and that, while the tax credit program is an important part of preservation, its use tends to drive up costs. The demand for tax credits also far exceeds resources available. Staff determined there was a need to set an investment priority, one option for which is to preserve in place rather than through a transfer of ownership. Both market conversion and properties with capital needs need action taken well in advance of subsidy expiration and loan maturities; there is also a need to understand owners' needs, motivations and intent to remain federally assisted and getting this understanding will help the Agency to move from being reactive to being anticipatory in its approach to preservation. This pilot includes $12,000,000 in unused PARIF and HOME HARP funds and would replace the current pipeline process. The pilot will look at properties from a capital needs standpoint and will ensure that both metro and Greater Minnesota will be served. The metro area and Greater Minnesota will be treated separately in recognition of the many market needs in both areas.

   Under the pilot, staff will review an owner's entire portfolio to help understand what their needs are; this will enable staff to identify developments that need more resources, such as the equity that tax credits may bring in or other additional resources through the RFP.

The pilot will target Section 8 owners who have opted out on other properties as well as properties with fewer than 25% Section 8 units and are primarily operated as a market rate property. There will also be a review to identify properties that have not had investments by the Agency in a particular amount of time and where an investment from the pilot may help to ensure those properties can execute a contract for affordability.

Mr. DeCramer inquired about the criteria for targeting on location and if there was a weighting of location versus risk. Ms. LaSota responded that, from locational indicator standpoint, using what has been included in previous RFPs; there is some weighting there, but staff also looks at high-need locations, for example, areas with high cost burdened renters, qualified census tracts or high need foreclosure areas. The pilot has, and needs to have, some flexibility because not all situations are the same. Priorities will be set while reaching out to owners, but staff will also have other developments in mind if an owner isn't interested or if there is a situation that warrants a property being moved to a priority list.

In response to a question from Ms. Bostrom, Ms. LaSota stated that the pilot is an outgrowth of the Minnesota Preservation Plus Initiative (MPPI), of which both the Family Housing Fund and the Greater Minnesota Housing Fund are a part and both organizations are very supportive of the pilot. Greater Minnesota Housing Fund has also expressed an interest in providing funding should additional funding be needed. They have also shared with the Agency the rural development properties that they believe are high risk. LaSota added that the Interagency Stabilization Group (ISG), which includes a broad audience, has been kept informed throughout the development of the pilot and the intent is to continue to have conversations with the group. Ms. Bostrom stated that she wants to ensure that the Agency doesn't get so carried away that it doesn't bring its partners with it.

Commissioner Tingerthal added that the pilot is getting to addressing the fact that the Agency know that there are more units of housing to preserve in Minnesota than there will ever have enough money to preserve. For a number of years, the goal of the ISG and MPPI has been to find a way to reach out to owners of very high priority properties rather than letting people queue up on their own in the pipeline. Approval of this pilot doesn't mean the Agency will do anything different on the competitive side; preservation that transfers ownership requires more intensive investment and those resources will still be available on a competitive basis. The Agency is trying to ensure that the competitive route is not the only path to resources and to gain an earlier focus on those properties that are most critical to preserve.

Ms. Klinzing stated that she believed that, on a case-by-case basis, the Agency may run into other partners in different situations and she wanted to take the opportunity to reinforce the board's support of preservation. Ms. Klinzing added that she would love to have a "no loss" situation but understands that likely will never happen due to the costs. Ms. Klinzing asked that staff always keep in mind that there are people in these units and this affects them; some of these people have been in their homes for a long time and, without outside involvement, may have no recourse in getting involved to have a say in if their homes will remain affordable and they can remain in them. Klinzing said that preservation is important work and we [the board] are behind it because they know what we're up against; the market is there for rentals right now and they're all filled. Ms. Klinzing thanked staff for putting the pilot together; adding that she knows they will give it their best shot

Auditor Otto also thanked staff for the positive approach, stating that it is really smart and will help. Discussion item, no action needed.

B. Request for Proposals for Auditing Services

Terry Schwartz presented this request, outlining the process and requirements, as well as the timeline. Discussion item, no action needed.

C. 2013 Affordable Housing Plan and 2013-15 Strategic Plan: Final Progress Report

John Patterson provided the board with the progress reports. Patterson noted that the approval of the Targeted Home Improvement Loan Program today would improve the home improvement numbers next year and that the Agency fell short on its goals for the LMIR program, adding that, given interest rates, the goals were probably overly ambitious. Ms. Bostrom stated that it was important to share not just where the Agency fell short, but where goals were exceeded as well. Discussion item, no action needed.

9. Informational Items

None.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 2:51 p.m.

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AGENDA ITEM: 6.A
MINNESOTA HOUSING BOARD MEETING
November 19, 2013

ITEM: 2014 Board Meeting Dates

CONTACT: Mary Tingerthal, 651.296.5738
mary.tingerthal@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 requests approval of a modified schedule of meetings for 2014. Adjustments are the result of holidays and conferences. Dates have not changed in the time since they were provided in draft form at the November 21 meeting.

FISCAL IMPACT:
None.

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):
- 2014 Board Meeting Dates

All meetings are on Thursdays and will begin at 1:00 p.m. RFP selections will likely be presented for approval at the October 23 meeting. The meeting at which the Board will review RFP selections will again be in the morning.

Committee meetings will be scheduled as needed. Members will be notified of the dates and times of these meetings as they are scheduled.

2014 Proposed Schedule of Minnesota Housing Board Meetings

January 23

February 27

March 27

April 24

May 22

June 19 *(one week early due to NCSHA conference)*

July 24

August 28

September 25

October 23

November 20 *(one week early due to Thanksgiving Day Holiday)*

December 18 *(one week early due to Christmas Holiday)*

Minnesota Housing Finance Agency

AGENDA ITEM: 6.B
MINNESOTA HOUSING BOARD MEETING
December 19, 2013

ITEM: Resolution Relating to State Appropriation Bonds (Housing Infrastructure), Series 2013, Amending Resolution No. MHFA 13-019

CONTACT: Don Wyszynski, 651-296-8207
don.wyszynski@state.mn.us

Paula Rindels, 651-296-2293
paula.rindels@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:
Add Wells Fargo Bank and remove Morgan Stanley and Company as a named purchaser of future State Appropriation Bonds pursuant to the recently concluded investment banker selection process.

FISCAL IMPACT:
None

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):

- Resolution

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RESOLUTION NO. MHFA 13-65

RESOLUTION RELATING TO
STATE APPROPRIATION BONDS
(HOUSING INFRASTRUCTURE), SERIES 2013
AMENDING RESOLUTION NO. MHFA 13-019

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

Background. (A) General. Pursuant to Minnesota Statutes, Chapter 462A, Section 462A.37 and by Resolution No. MHFA 13-019, adopted May 23, 2013 (as herein amended, and as from time to time hereafter amended or supplemented in accordance with its terms, the "Authorizing Resolution"), the Agency has provided the terms and conditions for the issuance and the covenants and agreements for the security of its State Appropriation Bonds (Housing Infrastructure) to be issued for the purposes of financing loans to borrowers to finance all or a portion of the costs of the acquisition, construction, rehabilitation and equipping, as applicable, of related developments, including facilities related and subordinate thereto, with respect to abandoned or foreclosed properties or for supportive housing, all as defined in Minnesota Statutes, Chapter 462A. All terms defined in the Authorizing Resolution are used with like meaning in this resolution.

(B) Purpose for Amendment. The issuance and sale of a portion of the Series Bonds authorized by the Authorizing Resolution has not yet occurred. Due to the change in the Agency's investment banking team approved by the Agency at its November 21, 2013 meeting, the Agency deems it necessary and desirable to amend the Authorizing Resolution by this resolution. Amendments of the provisions of the Authorizing Resolution are indicated by double underlining for addition and by interlineation for deletion.

Amendment of Section 1.03 of Series Resolution. Effective with respect to Series Bonds sold after the date hereof, Section 1.03 of the Series Resolution is hereby amended to read as follows:

> "The Agency will negotiate for the sale of the Series Bonds to RBC Capital Markets, LLC, ~~Corporation, Morgan Stanley & Co. LLC~~ Wells Fargo Bank, National Association and Piper Jaffray & Co. (collectively, the "Purchasers"). The Agency will issue and sell the Series Bonds to the Purchasers pursuant to one or more Contracts of Purchase to be entered into between the Agency and the Purchasers (the "Purchase Contract"), subject to the parameters set forth in Section 2.02 hereof."

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Confirmation of Authorizing Resolution. Except as modified by the provisions hereof, all provisions of the Authorizing Resolution are hereby confirmed in the form originally adopted and said provisions shall continue in full force and effect, to the extent applicable, as to all Series Bonds.

Adopted by the Minnesota Housing Finance Agency this 19th day of December, 2013.

By: ___________________________
Chairman

Attest: _________________________
Commissioner

Minnesota Housing Finance Agency

AGENDA ITEM: 7.A.
MINNESOTA HOUSING BOARD MEETING
December 19, 2013

ITEM: Approval, Income Limit Calculation Revisions, Single Family Programs

CONTACT: Kirsten Partenheimer, 651-297-3656

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:
Approve the alignment of the Start Up, Mortgage Credit Certificate (MCC), Fix Up Loan (Fix Up), Community Homeownership Impact Fund (Impact Fund), Monthly Payment Loan and Deferred Payment Loan income calculation guidelines with Section 143 of the Internal Revenue Code (Tax Code), which outlines requirements for federally tax-exempt mortgage revenue bonds. Approve the use of mortgage loan qualifying income for Step Up, as well as Monthly Payment Loans originated with Step Up.

FISCAL IMPACT:
The proposed changes may expand the number of households who are eligible for a Minnesota Housing home mortgage loan or home improvement loan. At this time, there are adequate, if not ample resources to purchase such loans. Therefore, a neutral or positive fiscal impact is anticipated.

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
- Draft Program Procedural Manual Language

BACKGROUND
The Tax Code provides income calculation guidelines for the Start Up and the MCC programs for first-time homebuyers. Although the Tax Code does not apply to Step Up program, Fix Up or the Impact Fund, the Agency chose to apply the same income calculations consistently across all Single Family programs.

Start Up and MCC Income Calculation Guidelines
A review of the income calculation guidelines for the Start Up and MCC homebuyer programs revealed that they differ, in some cases quite significantly, from the base Tax Code. Minnesota Housing currently requires the income of all household members over the age of 18 to be calculated for program eligibility, including household members not on title, such as extended family members or temporary household members. In contrast, the Tax Code requires the income of only the following people to be taken into account:

- The mortgagor (or mortgagors); and
- Any other person who is expected to both live in the residence being financed <u>and</u> to be secondarily liable on the mortgage.

This means that only the income of borrowers, co-borrowers and co-signers living in the property must be included.

Staff recommends updating the income calculation guidelines to require the income of the following:

- The mortgagors (per the Tax Code)
- Any person who is expected to both live in the residence <u>and</u> sign the note (per the Tax Code)
- Any person who is expected to both live in the residence <u>and</u> is a spouse of the mortgagor

Please note that the third bullet is a departure from the Tax code. It is proposed that it be added to the calculation so that high income, married households may not benefit from programs designed for lower income households.

Other recommended changes to the manual include changes to the current co-signer policy, treatment of projected rental income, and clarification of income calculation guidelines around the timing of the income determination in the loan process.

Lender input indicates that aligning the income calculation guidelines with the Tax Code may better serve emerging markets. Data shows emerging markets have larger household sizes, so changing the income calculation to only require the income of mortgagors and their spouses will better position Minnesota Housing to serve this population. The Planning, Research and Evaluation team confirmed this potential by assessing the incomes of renter households in Minnesota by emerging market status and household size. The share of renter households that are emerging market increases as income increases. When analyzing households with incomes between 100-115% AMI, only 18% of one to two-person households are emerging market households, whereas in renter households of six people or more, 73% are emerging market households. This analysis indicates that emerging market households are larger and may include more household members with some income than those who would be responsible for the mortgage, such as extended family members or temporary household members.

Impact Fund
The income calculation requirements for the Impact Fund are a policy decision and not dictated by the Tax Code. Since Impact Funds add mission focus and can be layered with other Agency first-time homebuyer programs, it is prudent for its income calculation requirements to be consistent with Start Up and MCC. Impact Fund staff are currently discussing potential policy revisions and updates to the procedural manual.

These discussions include the revision to Impact Fund income calculation guidelines as referenced here, and these manual updates will be forthcoming in 2014.

Fix Up
The income calculation requirements for the Fix Up program are a policy decision and not dictated by the Tax Code. The income calculation guidelines for Fix Up are proposed to be changed to align with the new calculation recommendations.

Step Up Income Calculation Guidelines
When Minnesota Housing launched Step Up in December of 2012, it established the program's income eligibility calculation consistent with the Start Up program in an effort to streamline program operations and lessen income eligibility calculation errors for lenders using both programs. However, because Step Up uses a secondary market financing structure and cannot be financed with mortgage revenue bonds, the Agency has the ability to use a mortgage industry-standard approach to income calculation. In the interest of enhancing the use of the program for lenders, staff recommends the use of the industry-standard method of calculating qualifying income.

A survey of Step Up lenders[1] revealed significant lender preference for the use of mortgage loan qualifying income to also serve as the eligibility income calculation for the program, consistent with loan underwriting practice. A majority of lenders indicate the ability to use qualifying income as the eligibility income for Step Up would make it easier to do business with Minnesota Housing. An analysis of Step Up transactions indicates that use of qualifying income as eligibility income typically results in a lower household income calculation. In 83% of the transactions[2], the Minnesota Housing eligibility income calculations were exactly the same as, or greater, than the qualifying income calculation.

Staff is aware that there is a risk of lender confusion by adopting different eligibility income calculations for Start Up and Step Up, but a number of factors lead staff to believe that this potential risk is outweighed by numerous other factors.

Downpayment and Closing Cost Loans
Start Up offers first-time homebuyers access to one of three downpayment and closing cost assistance (DPA) loans: Monthly Payment Loan, Deferred Payment Loan and HOME HELP. The Monthly Payment Loan uses the income calculation methodology of the first mortgage program, Start Up, MCC or Step Up. The Deferred Payment Loan is only available under Start Up and therefore uses the Start Up income calculation method. HOME HELP is funded with federal HOME funds and the income calculation guidelines will not change.

[1] Lenders surveyed include all top producing loan officers in addition to all loan officers who committed a minimum of one Step Up loan since December 18, 2012. Forty-four loan officers replied to the survey.
[2] Staff reviewed 143 Step Up transactions comparing the income eligibility and qualifying income data.

Recommendation

Staff requests approval of the alignment of Start Up, MCC, Fix Up, Impact Fund, Monthly Payment Loan and Deferred Payment Loan income calculation guidelines with the Tax Code, and the use of mortgage loan qualifying income as the eligibility income calculation for Step Up and Monthly Payment Loans originated with Step Up instead of total household income. Lender input and bond counsel legal review have been thoroughly considered in the development of these recommendations.

In addition, staff requests approval of the revised Start Up, MCC, Step Up and Fix Up Procedural Manuals. The MCC Procedural Manual language will match the language shown in the attached Start Up Procedural Manual.

Start Up Program Procedural Manual

as proposed

Chapter 2 - Borrower Eligibility

2.03 Co-Signers

Co-signers are permitted on Start Up loans. Co-signers sign the Start Up loan note and the down payment assistance loan note, if applicable. Co-signers are not vested in title to the property and may or may not reside in the subject property. See section 2.09.

2.08 Credit Scores and Debt-to-Income (DTI) Ratios

Generally, under the Start Up Loan Program, a credit score of at least 640 is required. However, if a borrower obtains an HFA Preferred loan with a loan-to-value (LTV) ratio greater than 95% and less than or equal to 97%, or an HFA Preferred Risk Sharing™ loan, the borrower must have a credit score of at least 680. In addition, the following criteria apply:

- If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.

- If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.
- If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.

2.09 Start Up Loan Program Eligibility Income

Total Eligibility Income may not exceed Start Up Program income limits posted on Minnesota Housing's website.

Parties Whose Income Must Be Included When Calculating Eligibility Income
The income of the following persons must be verified and included when calculating Eligibility Income:

- Anyone who will have title to the subject property and signs the Mortgage Deed).
- Anyone expected to reside in the subject property and who will be obligated to repay the Start Up loan (signs the Note) but who is not in title to the subject property; i.e. the Co-Signer (not named in title to the subject property and does not sign the Mortgage Deed).
- Any legal spouse of the Mortgagor who will also reside in the subject property.

If the Borrower is legally married and the spouse is not expected to reside in the subject property, the loan file must contain either the Non-Occupant Spouse Statement or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.

Any person whose income must be included in the Start Up Eligibility Income calculation who receives no income must sign either the Zero Income Statement or another statement indicating that he or she receives no income.

Eligibility Income Calculation
Total Eligibility Income is calculated using the Annualized Gross Income. Annualized Gross Income includes, but is not limited to:

- Base Pay, which includes full-time, part-time or seasonal work with regular hours, expressed hourly, weekly or monthly, etc.;
- Variable Income, which includes irregular hourly income, commissions, overtime pay, bonuses, income from irregular employment, shift differential, tips, profit-sharing, sick pay, holiday pay, vacation pay;
- Self-Employment or Business Income;
- Income from Financial Assets, Trusts or Annuities including but not limited to dividends, royalties and interest earned from non-retirement accounts;
- Government Transfer Payments, including retirement benefits, disability benefits, medical benefits, social security benefits, pensions, veterans' benefits, workers compensation, public assistance, unemployment insurance, federal education and training assistance and income maintenance benefits;
- Insurance or Benefit Payments, such as long-term care insurance, disability insurance, pensions, or death benefits;
- Investment Property Net Rental Income;
- Contract-for-Deed Interest Income;

- Child/Spousal Support;
- Regular Cash Contributions;
- Employee Allowances, such as housing, car, cell phone;
- Flexible Benefit Cash;
- Custodial Account Income, and
- Other Sources of Income.

The following types of income are excluded from the Eligibility Income calculation:

- Income no longer available;
- One-time (non-recurring) income; for example, income received once that does not have a history and is unlikely to reoccur in the future;
- Income generated by IRA, VIP, 403(b), and 401(k) accounts;
- Food stamps, Meals on Wheels, contributions of food;
- Government-paid child care which is paid directly to the provider;
- Foster care income;
- Educational scholarships, grants, loans or tuition reimbursement;
- Earned Income Tax Credit refund payments;
- Potential roommate income or rental income of future duplex or accessory dwelling unit;
- Court-ordered child or spousal support not received;
- 529 plans;
- Custodian accounts where someone other than the parents are named as custodian;
- Unearned income of adult dependents, and
- Non-recurring payments from:
    - Inheritances
    - Insurance settlements
    - Lottery winnings
    - Gambling winnings
    - Capital gains
    - Liquidation of assets
    - Settlements for personal loss.

For more technical guidance in calculating total Eligibility Income, please consult the Eligibility Income Worksheet posted on Minnesota Housing's website, which further governs eligibility income inclusions and exclusions.

The calculation of Eligibility Income must take place in the 120-day period immediately preceeding loan closing. In determining Eligibility Income, the lender must rely on the most recently verified income documentation in the loan file.

Appendix A: Definitions

TERM	DEFINITION
Acquisition Cost	The cost of acquiring a completed residential unit (See section 3.04).
Annualized Gross Income	Gross monthly income multiplied by 12.
Borrower	A mortgagor who receives funds in the form of a loan with the obligation of repaying the loan and in addition, any person purchasing the real property securing the loan, executing the promissory note, executing a guarantee of the debt evidenced by the promissory note or signing a security instrument in connection with a loan.
Co-Signer	A party that is obligated to repay the loan. A Co-signer assumes only personal liability and has no ownership interest in the property.
Eligibility Income	See Section 2.09. Any of several different types of earned or unearned income claimed by the Borrower. Types of income include but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 2.05 of this Procedural Manual.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
Mortgagor	The borrower in a Start Up Loan transaction who pledges the property as security for the debt.
New Construction/Newly Constructed Residence	New construction or a newly constructed residence refers to a residence, which either has not been previously occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or gap loan).
Personal Property	Property such as an appliance, a piece of furniture, a radio etc., which under applicable law is not a fixture.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.

Property Seller	The seller of the property under contract for sale to the Borrower who is using Minnesota Housing financing.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed as outlined in its entirety in section 2.07 of this Procedural Manual.

Appendix B: Forms List

Acquisition Cost Worksheet – optional
Deferred Loan Program Note, if applicable
Deferred Loan Program Mortgage, if applicable
Monthly Loan Program Note, if applicable
Monthly Loan Program Mortgage, if applicable
Borrower Affidavit
FHA Streamlined 203K Appliance Form[1]
Income Eligibility Calculation Worksheet - optional
Mortgage Deed Amendment

- Fannie Mae HFA Preferred (Conventional)/RD;
- FHA; or
- VA.

Notice to Buyers FHA
Notice to Veteran and Consent
Property Seller Affidavit
Subsidy Recapture Disclosure Statement
Non-Occupant Spouse Statement, if applicable
Zero Income Statement, if applicable

Note: See the HOME HELP Program Procedural Manual for a listing of HOME HELP forms.

[1] Applicable only for FHA Streamlined 203K loans

Start Up Program Procedural Manual

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Chapter 2 - Borrower Eligibility

2.03 Co-Signers

~~Non-occupant co-signers are not allowed on first mortgage loans. All Borrowers must occupy the property as their primary residence.~~ Co-signers are permitted on Start Up loans. Co-signers sign the Start Up loan note and the down payment assistance loan note, if applicable. Co-signers are not vested in title to the property and may or may not reside in the subject property. See section 2.09.

2.08 Credit Scores and Debt-to-Income (DTI) Ratios

~~A credit score of 640 or higher is required of all Borrower(s). If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.~~

~~The Borrower(s) must have a minimum credit score of 680 for all HFA Preferred Loans with a loan-to-value ratio between 95.00% and 97.00% and all HFA Preferred Risk Sharing™ Loans. In all other instances, the following credit score criteria apply:~~

- ~~If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~
- ~~If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~
- ~~If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.~~
- ~~If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~
- ~~If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~

Generally, under the Start Up Loan Program, a credit score of at least 640 is required. However, if a borrower obtains an HFA Preferred loan with a loan-to-value (LTV) ratio greater than 95% and less than or equal to 97%, or an HFA Preferred Risk Sharing™ loan, the borrower must have a credit score of at least 680. In addition, the following criteria apply:

- If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.
- If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.
- If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.

2.09 ~~Minnesota Housing~~ Start Up Loan Program Eligibility Income

~~Gross annual household income is the gross annual~~ projected ~~household income as of the date of the mortgage application of all persons residing or intending to reside in a property 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.~~

~~The Minnesota Housing maximum gross household income cannot exceed the amounts listed on Minnesota Housing's website.~~

~~Gross annual projected household income includes but is not limited to:~~

- ~~Salary, commissions, overtime, shift differential, 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 (including contract-for-deed income), income received from business activities or investments;~~

- ~~Alimony, child support;~~
- ~~Estate or trust income; and~~
- ~~Transfer payments such as social security, disability, unemployment insurance, workers compensation, veterans' benefits, pensions and other government/public assistance.~~

~~**Non-Borrowing Occupant.** The income of all occupants must be verified and considered for the purposes of determining whether the Minnesota Housing maximum income limits have been exceeded even if a non-borrowing occupant's income is not considered for credit underwriting purposes.~~

Total Eligibility Income may not exceed Start Up Program income limits posted on Minnesota Housing's website.

Parties Whose Income Must Be Included When Calculating Eligibility Income
The income of the following persons must be verified and included when calculating Eligibility Income:

- Anyone who will have title to the subject property and signs the Mortgage Deed).
- Anyone expected to reside in the subject property and who will be obligated to repay the Start Up loan (signs the Note) but who is not in title to the subject property; i.e. the Co-Signer (not named in title to the subject property and does not sign the Mortgage Deed).
- Any legal spouse of the Mortgagor who will also reside in the subject property.

If the Borrower is legally married and the spouse is not expected to reside in the subject property, the loan file must contain either the Non-Occupant Spouse Statement or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.

Any person whose income must be included in the Start Up Eligibility Income calculation who receives no income must sign either the Zero Income Statement or another statement indicating that he or she receives no income.

Eligibility Income Calculation
Total Eligibility Income is calculated using the Annualized Gross Income. Annualized Gross Income includes, but is not limited to:

- Base Pay, which includes full-time, part-time or seasonal work with regular hours, expressed hourly, weekly or monthly, etc.;
- Variable Income, which includes irregular hourly income, commissions, overtime pay, bonuses, income from irregular employment, shift differential, tips, profit-sharing, sick pay, holiday pay, vacation pay;

- Self-Employment or Business Income;
- Income from Financial Assets, Trusts or Annuities including but not limited to dividends, royalties and interest earned from non-retirement accounts;
- Government Transfer Payments, including retirement benefits, disability benefits, medical benefits, social security benefits, pensions, veterans' benefits, workers compensation, public assistance, unemployment insurance, federal education and training assistance and income maintenance benefits;
- Insurance or Benefit Payments, such as long-term care insurance, disability insurance, pensions, or death benefits;
- Investment Property Net Rental Income;
- Contract-for-Deed Interest Income;
- Child/Spousal Support;
- Regular Cash Contributions;
- Employee Allowances, such as housing, car, cell phone;
- Flexible Benefit Cash;
- Custodial Account Income, and
- Other Sources of Income.

The following types of income are excluded from the Eligibility Income calculation:

- Income no longer available;
- One-time (non-recurring) income; for example, income received once that does not have a history and is unlikely to reoccur in the future;
- Income generated by IRA, VIP, 403(b), and 401(k) accounts;
- Food stamps, Meals on Wheels, contributions of food;
- Government-paid child care which is paid directly to the provider;
- Foster care income;
- Educational scholarships, grants, loans or tuition reimbursement;
- Earned Income Tax Credit refund payments;
- Potential roommate income or rental income of future duplex or accessory dwelling unit;
- Court-ordered child or spousal support not received;
- 529 plans;
- Custodian accounts where someone other than the parents are named as custodian;

- Unearned income of adult dependents, and
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements
  - Lottery winnings
  - Gambling winnings
  - Capital gains
  - Liquidation of assets
  - Settlements for personal loss.

For more technical guidance in calculating total Eligibility Income, please consult the Eligibility Income Worksheet posted on Minnesota Housing's website, which further governs eligibility income inclusions and exclusions.

The calculation of Eligibility Income must take place in the 120-day period immediately preceeding loan closing. In determining Eligibility Income, the lender must rely on the most recently verified income documentation in the loan file.

Appendix A: Definitions

TERM	DEFINITION
Acquisition Cost	The cost of acquiring a completed residential unit (See section 3.04).
Annualized Gross Income	~~Gross annual income expressed as a monthly figure (gross annual income divided by 12).~~Gross monthly income multiplied by 12.
Borrower	A mortgagor who receives funds in the form of a loan with the obligation of repaying the loan and in addition, any person purchasing the real property securing the loan, executing the promissory note, executing a guarantee of the debt evidenced by the promissory note or signing a security instrument in connection with a loan.
Co-Signer	A party that is obligated to repay the loan~~,~~. A Co-signer assumes only personal liability and has no ownership interest in the property.
Eligibility Income	See Section 2.09. Any of several different types of earned or unearned income claimed by the Borrower. Types of income include but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 2.05 of this Procedural Manual.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
Mortgagor	~~A person who has borrowed money and pledged his/her real property as security for the Start Up loan.~~ The borrower in a Start Up Loan transaction who pledges the property as security for the debt.
New Construction/Newly Constructed Residence	New construction or a newly constructed residence refers to a residence, which either has not been previously occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or gap loan).
Personal Property	Property such as an appliance, a piece of furniture, a radio etc., which under applicable law is not a fixture.

Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Property Seller	The seller of the property under contract for sale to the Borrower who is using Minnesota Housing financing.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed as outlined in its entirety in section 2.07 of this Procedural Manual.

Appendix B: Forms List

Acquisition Cost Worksheet – optional
Deferred Loan Program Note, if applicable
Deferred Loan Program Mortgage, if applicable
Monthly Loan Program Note, if applicable
Monthly Loan Program Mortgage, if applicable
Borrower Affidavit
FHA Streamlined 203K Appliance Form[1]
Income Eligibility Calculation Worksheet - optional
Mortgage Deed Amendment

- Fannie Mae HFA Preferred (Conventional)/RD;
- FHA; or
- VA.

Notice to Buyers FHA
Notice to Veteran and Consent
Property Seller Affidavit
Subsidy Recapture Disclosure Statement
Non-Occupant Spouse Statement, if applicable
Zero Income Statement, if applicable

Note: See the HOME HELP Program Procedural Manual for a listing of HOME HELP forms.

[1] Applicable only for FHA Streamlined 203K loans

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Step Up Program Procedural Manual

as proposed

Chapter 2 - Borrower Eligibility

2.03 Co-Signers

Co-signers are permitted on Step Up loans. Co-signers sign the Step Up loan note and the down payment assistance loan note, if applicable. Co-signers are not vested in title to the property and may, or may not, reside in the subject property. See Section 2.07

2.04 Unauthorized Compensation

Borrower(s) shall not receive kickbacks, rebates, discounts, and/or compensation from any subcontractor, realtor or property seller.

2.05 Principal Residence/Occupancy Requirement

Borrower(s) must intend to occupy the financed dwelling as a Principal Residence.

2.06 Credit Score and Debt-to-Income (DTI) Ratios

Generally, under the Step Up Loan Program, a credit score of at least 640 is required. However, if a borrower obtains an HFA Preferred loan with a loan-to-value (LTV) ratio greater than 95% and less than or equal to 97%, or an HFA Preferred Risk Sharing™ loan, the borrower must have a credit score of at least 680. In addition, the following criteria apply:

- If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.

- If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.
- If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.

2.07 Step Up Loan Program Eligibility Income

The income used to qualify the Borrower may not exceed the Step Up program income limits posted on Minnesota Housing's website. Income is defined by and calculated according to credit underwriting guidelines for the underlying loan program (FHA, Fannie Mae, RD or VA). The lender should compare income specified on the final mortgage loan application to the program income limits to determine whether Borrower(s) income is at or below program income limits. A copy of the underwriter's loan approval reflecting final income figures must be included in the loan file.

The Minnesota Housing maximum Program Eligibility Income cannot exceed the amounts listed on Minnesota Housing's website.

Minnesota Housing permits the subordination of a Homeownership Assistance Fund (HAF) Loan, a Deferred Payment Loan (DPL) or a Monthly Payment Loan (MPL) only in cases where the Minnesota Mortgage Program (MMP) Loan or Start Up Loan with which it is linked, is being refinanced to a Step Up Loan. HOME HELP and ECHO loans may be subordinated to Step Up refinance or other mortgage product by requesting approval from AmeriNational.

2.08 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 also eligible. The Borrower must meet all eligibility criteria for the program.

Chapter 5 – Downpayment and Closing Cost Loans

5.04 Subordination Policy

Minnesota Housing permits the subordination of a Homeownership Assistance Fund (HAF) Loan, a Deferred Payment Loan (DPL) or a Monthly Payment Loan (MPL) only in cases where the Minnesota Mortgage Program (MMP) Loan or Start Up Loan with which it is linked, is being refinanced to a Step Up Loan.

Appendix A: Definitions

TERM	DEFINITION
Co-Signer	A party that is obligated to repay the loan. A Co-signer assumes only personal liability and has no ownership interest in the property.
Eligibility Income	See Section 2.07. Any of several different types of earned or unearned income claimed by the Borrower. Types of income include but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower(s) purchasing a specific property.
Master Servicer	The company selected by Minnesota Housing to be the master servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
New Construction/ Newly Constructed Residence	New construction or a newly constructed residence refers to a residence, which has either not been previously occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or bridge loan).
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed in a **classroom** setting by organizations that have had staff trained under Home Stretch or NeighborWorks America.

Step Up Program Procedural Manual

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Chapter 2 - Borrower Eligibility

2.03 Co-Signers

Co-signers are permitted on Step Up loans. Co-signers sign the Step Up loan note and the down payment assistance loan note, if applicable. Co-signers are not vested in title to the property and may, or may not, reside in the subject property. See Section 2.07

2.~~03~~04 Unauthorized Compensation

Borrower(s) shall not receive kickbacks, rebates, discounts, and/or compensation from any subcontractor, realtor or property seller.

2.~~04~~05 Principal Residence/Occupancy Requirement

Borrower(s) must intend to occupy the financed dwelling as a Principal Residence.

2.~~05~~06 Credit Score and Debt-to-Income (DTI) Ratios

~~A credit score of 640 or higher is required of all Borrower(s). If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.~~

~~The Borrower(s) must have a minimum credit score of 680 for all HFA Preferred Loans with a loan-to-value ratio between 95.00% and 97.00% and all HFA Preferred Risk Sharing™ Loans. In all other instances, the following credit score criteria apply:~~

- ~~If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~
- ~~If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~
- ~~If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.~~
- ~~If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~
- ~~If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.~~

Generally, under the Step Up Loan Program, a credit score of at least 640 is required. However, if a borrower obtains an HFA Preferred loan with a loan-to-value (LTV) ratio greater than 95% and less than or equal to 97%, or an HFA Preferred Risk Sharing™ loan, the borrower must have a credit score of at least 680. In addition, the following criteria apply:

- If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.
- If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.
- If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.

2.~~06~~07 ~~Minnesota Housing~~ Step Up Loan Program Eligibility Income

~~Gross annual household income is the gross annual projected household income as of the date of the mortgage application of all persons residing or intending to reside in a property 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.~~The income used to qualify the Borrower may not exceed the Step Up program income limits posted on Minnesota Housing's website. Income is defined by and calculated according to credit underwriting guidelines for the underlying loan program (FHA, Fannie Mae, RD or VA). The lender should compare income specified on the final mortgage loan application to the program income limits to determine whether Borrower(s) income is at or below program income limits. A copy of the underwriter's loan approval reflecting final income figures must be included in the loan file.

The Minnesota Housing maximum ~~gross household~~ Program Eligibility Income cannot exceed the amounts listed on Minnesota Housing's website.

~~Minnesota Housing permits over-income borrowers with a Homeownership Assistance Fund (HAF) loan, Deferred Payment Loan (DPL), or Monthly Payment Loan (MPL) to refinance the amount of the loan owed at payoff into an interest-free Monthly Payment Loan to use the Step Up refinance program.~~ Minnesota Housing permits the subordination of a Homeownership Assistance Fund (HAF) Loan, a Deferred Payment Loan (DPL) or a Monthly Payment Loan (MPL) only in cases where the Minnesota Mortgage Program (MMP) Loan or Start Up Loan with which it is linked, is being refinanced to a Step Up Loan. HOME HELP and ECHO loans may be subordinated to Step Up refinance ~~for all borrowers, regardless of income~~or other mortgage product by requesting approval from AmeriNational.

~~Gross annual projected household income includes but is not limited to:~~

- ~~Salary, commissions, overtime, shift differential, 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 (including contract-for-deed income), income received from business activities or investments;~~
- ~~Alimony, child support;~~
- ~~Estate or trust income; and~~
- ~~Transfer payments such as social security, disability, unemployment insurance, workers compensation, veterans' benefits, pensions and other government/public assistance.~~

~~**Non-Borrowing Occupant.** The income of all occupants must be verified and considered for the purposes of determining whether the Minnesota Housing maximum income limits have been exceeded even if a non-borrowing occupant's income is not considered for credit underwriting purposes.~~

2.~~07~~08 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 also eligible. The Borrower must meet all eligibility criteria for the program.

Chapter 5 – Downpayment and Closing Cost Loans

5.04 Subordination Policy

Minnesota Housing permits the subordination of a Homeownership Assistance Fund (HAF) Loan, a Deferred Payment Loan (DPL) or a Monthly Payment Loan (MPL) only in cases where the Minnesota Mortgage Program (MMP) Loan or Start Up Loan with which it is linked, is being refinanced to a Step Up Loan.

Appendix A: Definitions

TERM	DEFINITION
Co-Signer	~~A party that is obligated to repay the loan, if the Borrower is unable to repay the loan, and is not named in title to the property.~~ A party that is obligated to repay the loan. A Co-signer assumes only personal liability and has no ownership interest in the property.
Eligibility Income	See Section 2.0~~6~~7. Any of several different types of earned or unearned income claimed by the Borrower. Types of income include but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower(s) purchasing a specific property.
Master Servicer	The company selected by Minnesota Housing to be the master servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
New Construction/ Newly Constructed Residence	New construction or a newly constructed residence refers to a residence, which has either not been previously occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or bridge loan).
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.

Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed in a **classroom** setting by organizations that have had staff trained under Home Stretch or NeighborWorks America.

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Fix Up Program Procedural Manual

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Chapter 2 – Borrower Eligibility

2.08 Fix Up Loan Program Eligibility Income

Annualized Gross Income is the gross annual income as of the date of the Credit Application from whatever source derived, before taxes or withholdings, of:

- Borrower(s);
- Borrowers' spouse, if any; and
- Any other household resident who has ownership interest in the property to be improved.

The Minnesota Housing maximum total Eligibility Income may not exceed the amounts listed on Minnesota Housing's website.

Note: Refer to exceptions below when originating loans for Accessibility Improvements and Incentive Rate Energy Conservation and Accessibility Loans.

Annualized Gross 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 after adding back depreciation;
- Net income received from business activities after adding back depreciation, entertainment and travel expenses and private retirement contribution;
- Alimony, child support;
- Estate or trust income;
- Seasonal employment income; and
- Contract-for-deed income deducting principal, interest, taxes, and insurance paid by property Seller on outstanding debt against the property. (Deductions cannot exceed the contract-for-deed income.)

Ineligible income adjustments include:

- Any temporary, nonrecurring reduction of income of a known duration including, but not limited to, layoff, maternity leave, sabbatical leave may not be considered when calculating Annualized Gross Income. Rather, income shall be calculated based on the normal annual income of the temporarily unemployed person.

Exception for Accessibility Improvements:

The maximum total Eligibility Income may be waived with prior written approval by Minnesota Housing when the loan proceeds will be used exclusively for Accessibility Improvements. If anticipating a waiver, the income of the spouse and any other household resident who has ownership interest in the property to be improved is not considered in qualifying the Borrower(s) for the loan.

Exception for Energy Conservation Improvements:

The maximum total Eligibility Income is waived when the loan proceeds will be used exclusively for energy conservation improvements outlined in Section 5.02 of this Procedural Manual. As such, the income of the spouse and any other household resident who has ownership interest in the property to be improved is not considered in qualifying the Borrower(s) for the loan.

4.01 Eligible Loans

General Loan Eligibility Requirements

Minnesota Housing purchases closed and funded loans from Sellers under contract in Minnesota Housing loan programs. The Seller must warrant that the following criteria have been met for each loan submitted for purchase.

- All loans have been originated, processed, credit underwritten, closed and disbursed in accordance with the requirements of this Procedural Manual;
- If the loan is secured by a mortgage in first lien position, the combination of the interest rate and loan repayment term may not cause the annual percentage rate (APR) for the loan to exceed the first lien position rate published on Minnesota Housing's website by more than.49%.
- All loans must be current as to monthly payments at the time of loan purchase;
- All local, state and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending and wrongful discrimination in residential housing have been met;
- Minnesota Housing program income and property requirements have been met; and
- The loan must be originated and closed in the name of the Seller that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing via the HDS SF Web Application.

Eligible Loan Types/Loan Amounts/Loan Terms[1]

Fix Up Loan Type	Min. Ln. Amt.	Max. Ln. Amt.	Min. Ln. Term	Max Ln. Term
Regular - Secured Loan	$2,000	$50,000	1 year	20 years
Regular - Unsecured Loan	$2,000	$15,000	3 years	10 years
Energy/Accessibility Incentive-Secured Loan	$2,000	$15,000	1 year	20 years
Community Fix Up - Secured Loan	$2,000	$50,000	1 year	20 years

The above loan repayment terms apply subject to the following:

- The maximum possible maturity on a loan in an amount less than or equal to $10,000 is 10 years.
- The maximum possible maturity for secured loans in an amount greater than $10,000 is 20 years.
- Seller will not make a loan term for an unreasonable length of time. Final maturity of the loan shall be commensurate with the Borrower's ability to pay including such considerations as debt-to-income ratio, size of household and Annualized Gross Income.
- For properties being purchased with a mortgage from private individuals, the loan term may not extend beyond the date of any balloon payment.
- For tribal trust properties:
  - the loan term may not extend beyond the term of the individual home-site lease, and
  - the loan must be unsecured.

5.02 Incentive Rate Energy Conservation and Accessibility Loans

Incentive rate loans are eligible for reduced interest rates and must be used exclusively for energy conservation and Accessibility Improvements and meet all the requirements of this Procedural Manual as modified below:

- Eligible improvements for Energy Conservation Loans must meet Energy Star® requirements and are limited to:
  - Window replacement with Energy Star® Windows
  - Heating system replacement;
  - Central air conditioning replacement;
  - Water heater replacement;
  - Light fixture replacement; or
  - Insulation/attic air sealing.

---

[1] See also Sections 4.02 and 4.12 of this procedural manual.

- Since Energy Star® requirements change over time, Sellers must refer to the Fix-up Loan Program Energy Improvements List that may be accessed on Minnesota Housing's website for the specific, technical requirements of eligible energy improvements.
- Eligible Accessibility Improvements for reduced rate loans include but are not limited to:
    - Construction entrance or exit ramps;
    - Widening interior or exterior doors and/or hallways;
    - Moving electrical outlets and switches;
    - Installing or modifying fire alarms, smoke detectors and other alerting systems;
    - Installing handrails, grab bars or stairway lifts; or
    - Modifying hardware, doors or bathrooms.
- For other accessibility improvements not listed above, the Fix Up Program Accessibility Evaluation form must be used to document the accessibility needs of the Borrower(s). The Accessibility Evaluation form must be submitted to Minnesota Housing for approval prior to commitment.

For requirements pertaining to waiver Annualized Gross Income, refer to Section 2.08.

For requirements pertaining to loan amount minimums and maximums as well as loan term minimums and maximums, refer to Section 4.01 of this procedural manual.

Appendix A: Definitions

TERM	DEFINITION
Accommodation Party	An owner of the property who is not a Borrower on the Fix Up Note, such as a non-borrowing spouse or a contract-for- deed vendor.
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.
Annualized Gross Income	Gross monthly income multiplied by 12.
Dealer Loan	A loan where an intermediary such as a contractor, salesman or materials supplier, having a financial interest in the contract for the repair, alteration, or improvement of the Borrower's property, intervenes or participates in the application for or disbursement of the loan.
Direct Loan	A Loan applied for by, and disbursed to the Borrower; and where the Credit Application, signed by the Borrower is filled out by: A. The Borrower; or, B. A maker of the Fix Up Note other than a Borrower; or, C. A person acting at the direction of a Borrower who has no financial interest, directly or indirectly, in the contract for the repair, alteration, or improvement of the Borrower's property.
Incentive Rate Energy Conservation and Accessibility Improvement Loans	Those loans referenced in Section 5.02 of this Procedural Manual. (As opposed to the Regular Secured Accessibility Loan under the Fix Up Program.)
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.

Fix Up Loan Program Eligibility Income	Annualized Gross Income as of the date of the Credit Application from whatever source derived, before taxes or withholding, of: • Borrower(s); • Borrowers' spouse, if any; and • Any other household resident who has ownership interest in the property to be improved. The Minnesota Housing maximum total Eligibility Income may not exceed the amounts listed on Minnesota Housing's website.
Minnesota Housing Program Underwriting Income	Gross annual income that has been verified and documented as stable and likely to continue. This income is used to determine: • the Debt-to-Income Ratio for the Borrower(s) and/or Guarantor(s); and • whether approving the loan application constitutes a prudent investment risk.
Order Discharging Debtor	The notice filed with the Bankruptcy Court proving the bankruptcy case has been successfully completed and all debt has been discharged. Note: If the bankruptcy case is dismissed, it means that something went wrong with the case and the debts are still owed to the creditors.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Seller	A lender under contract to participate in Minnesota Housing programs.

Fix Up Program Procedural Manual

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Chapter 2 – Borrower Eligibility

2.08 ~~Minnesota Housing~~ Fix Up Loan Program Eligibility Income

~~Gross annual household~~ Annualized Gross Income is the gross annual income as of the date of the Credit Application from whatever source derived, before taxes or withholdings, of:

- Borrower(s);
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- Any other household resident who has ownership interest in the property to be improved.

The Minnesota Housing maximum ~~gross household~~ total Eligibility Income may not exceed the amounts listed on Minnesota Housing's website.

Note: Refer to exceptions below when originating loans for Accessibility Improvements and Incentive Rate Energy Conservation and Accessibility Loans.

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- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation and sick pay;
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- Net income received from business activities after adding back depreciation, entertainment and travel expenses and private retirement contribution;
- Alimony, child support;
- Estate or trust income;
- Seasonal employment income; and
- ~~Ongoing educational grants paid directly to the Borrower; and~~
- Contract-for-deed income deducting principal, interest, taxes, and insurance paid by property Seller on outstanding debt against the property. (Deductions cannot exceed the contract-for-deed income.)

Ineligible income adjustments include:

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  - Water heater replacement;
  - Light fixture replacement; or
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[1] See also Sections 4.02 and 4.12 of this procedural manual.

- Since Energy Star® requirements change over time, Sellers must refer to the Fix-up Loan Program Energy Improvements List that may be accessed on Minnesota Housing's website for the specific, technical requirements of eligible energy improvements.
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  - Widening interior or exterior doors and/or hallways;
  - Moving electrical outlets and switches;
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  - Installing handrails, grab bars or stairway lifts; or
  - Modifying hardware, doors or bathrooms.
- For other accessibility improvements not listed above, the Fix Up Program Accessibility Evaluation form must be used to document the accessibility needs of the Borrower(s). The Accessibility Evaluation form must be submitted to Minnesota Housing for approval prior to commitment.

For requirements pertaining to waiver ~~gross annual household~~ Annualized Gross Income, refer to Section 2.08.

For requirements pertaining to loan amount minimums and maximums as well as loan term minimums and maximums, refer to Section 4.01 of this procedural manual.

Appendix A: Definitions

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Annualized Gross Income	Gross monthly income multiplied by 12.
Dealer Loan	A loan where an intermediary such as a contractor, salesman or materials supplier, having a financial interest in the contract for the repair, alteration, or improvement of the Borrower's property, intervenes or participates in the application for or disbursement of the loan.
Direct Loan	A Loan applied for by, and disbursed to the Borrower; and where the Credit Application, signed by the Borrower is filled out by: A. The Borrower; or, B. A maker of the Fix Up Note other than a Borrower; or, C. A person acting at the direction of a Borrower who has no financial interest, directly or indirectly, in the contract for the repair, alteration, or improvement of the Borrower's property.
Incentive Rate Energy Conservation and Accessibility Improvement Loans	Those loans referenced in Section 5.02 of this Procedural Manual. (As opposed to the Regular Secured Accessibility Loan under the Fix Up Program.)
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.

~~Minnesota Housing~~ Fix Up Loan Program Eligibility Income	~~Gross annual projected household~~ Annualized Gross Income as of the date of the Credit Application from whatever source derived, before taxes or withholdings, of: • Borrower(s); • Borrowers' spouse, if any; and • Any other household resident who has ownership interest in the property to be improved. The Minnesota Housing maximum ~~gross household~~ total Eligibility Income may not exceed the amounts listed on Minnesota Housing's website.
Minnesota Housing Program Underwriting Income	Gross annual income that has been verified and documented as stable and likely to continue. This income is used to determine: • the Debt-to-Income Ratio for the Borrower(s) and/or Guarantor(s); and • whether approving the loan application constitutes a prudent investment risk.
Order Discharging Debtor	The notice filed with the Bankruptcy Court proving the bankruptcy case has been successfully completed and all debt has been discharged. Note: If the bankruptcy case is dismissed, it means that something went wrong with the case and the debts are still owed to the creditors.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Seller	A lender under contract to participate in Minnesota Housing programs.

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Minnesota Housing Finance Agency

AGENDA ITEM: 7.B
MINNESOTA HOUSING BOARD MEETING
December 19, 2013

ITEM: Rental Rehabilitation Deferred Loan Pilot Program

CONTACT: Susan Haugen, 651-296-9848 susan.haugen@state.mn.us
Joel Salzer, 651-296-9828 joel.salzer@state.mn.us

REQUEST:

- [x] Approval
- [ ] Discussion
- [ ] Information

TYPE(S):

- [ ] Administrative
- [ ] Commitment(s)
- [x] Modification/Change
- [ ] Policy
- [ ] Selection(s)
- [ ] Waiver(s)
- [ ] Other:

ACTION:

- [x] Motion
- [ ] Resolution
- [ ] No Action Required

SUMMARY REQUEST:
Staff requests approval to continue operating the Rental Rehabilitation Deferred Loan (RRDL) Pilot Program through September 2015. The pilot extension, and the announcement of additional funding though a proposed 2014 AHP amendment, will allow staff to support the current Program Model production levels through local administrators while continuing to analyze the Program Model's effectiveness through a complete loan cycle before presenting recommendations to the Board for a permanent program.

FISCAL IMPACT:
This change will have no fiscal impact under the current Affordable Housing Plan.

MEETING AGENCY PRIORITIES:

- [ ] Promote and support successful homeownership
- [x] Preserve federally-subsidized rental housing
- [x] 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
- Map of RRDL Program Area

BACKGROUND:

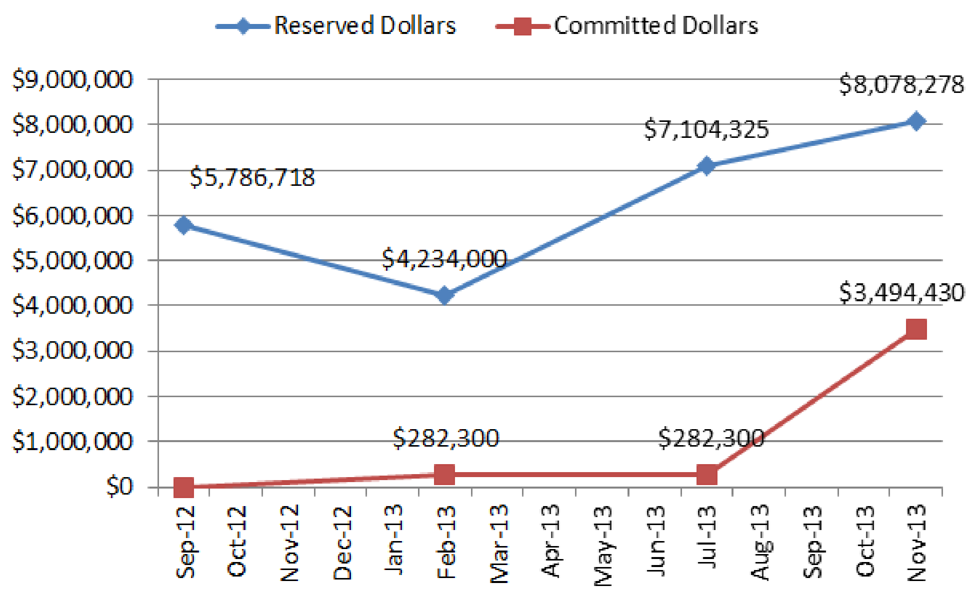
In February 2012, Minnesota Housing launched the RRDL Program, a two year pilot program intended to help rehabilitate and stabilize naturally-affordable rental housing in Greater Minnesota. RRDL was designed to provide rehabilitation resources both to larger properties through a Specific Project application process and to smaller properties through a local administrative network under a Program Model approach. Approximately $1.4 million was allocated to 5 Specific Projects and $8.5 million was allocated to 8 administrators serving 48 counties and 11 cities across Greater Minnesota through the Program Model approach.

Staff implemented several measures in April, 2013 to address key obstacles and improve production under the Program Model approach, including:

- Established a simplified application process for owners of smaller rental properties.
- Modified credit worthiness and underwriting guidelines for individual owners and sole proprietorships.
- Created appropriate commercial loan standards for existing primary mortgages.

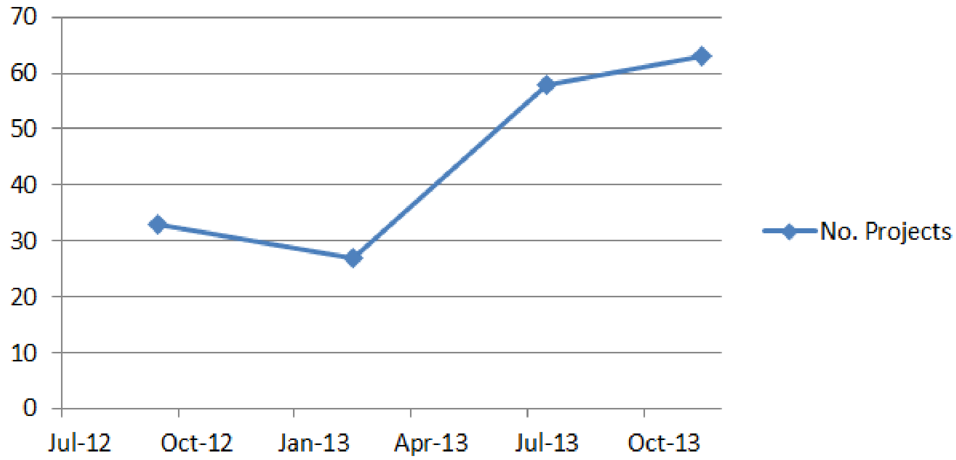
OUTCOMES:
Ninety-five percent (95%) of the initial $8. 5 million of RRDL Program Model funds was reserved for individual projects in Greater Minnesota as of November 1, 2013.

Figure 1. RRDL Program Model Funding Trends / Application Status



Many applications were withdrawn by individual owners prior to implementation of the new measures in April, 2013. Upon full implementation of the measures, the RRDL program saw production rebound and applications more than double (70%) between May and November of 2013.

Figure 2. RRDL Program Model Projects in Process



Administrators continue to accept applications and have a significant pipeline of new projects waiting. The extension of the pilot program, and the infusion of an additional $6.3 million in funding under the pilot program guidelines, permits staff to collect data on the complete Program Model cycle to effectively evaluate the pilot before making recommendations for a permanent program. Below are a few of the key areas staff will be able to fully evaluate with approval of the pilot program extension:

- Analysis of distribution and oversight processes through project construction, completion, and closeout.
- Development of suitable legal documents and closing processes for small rental rehabilitation loans.
- Enhanced coordination with federal, state, local, and philanthropic funding partners to extend affordability and ensure efficient use of existing resources.
- Increased efficiency in fund distribution and loan production.
- Potential for use of RRDL in preserving critical supportive housing resources.

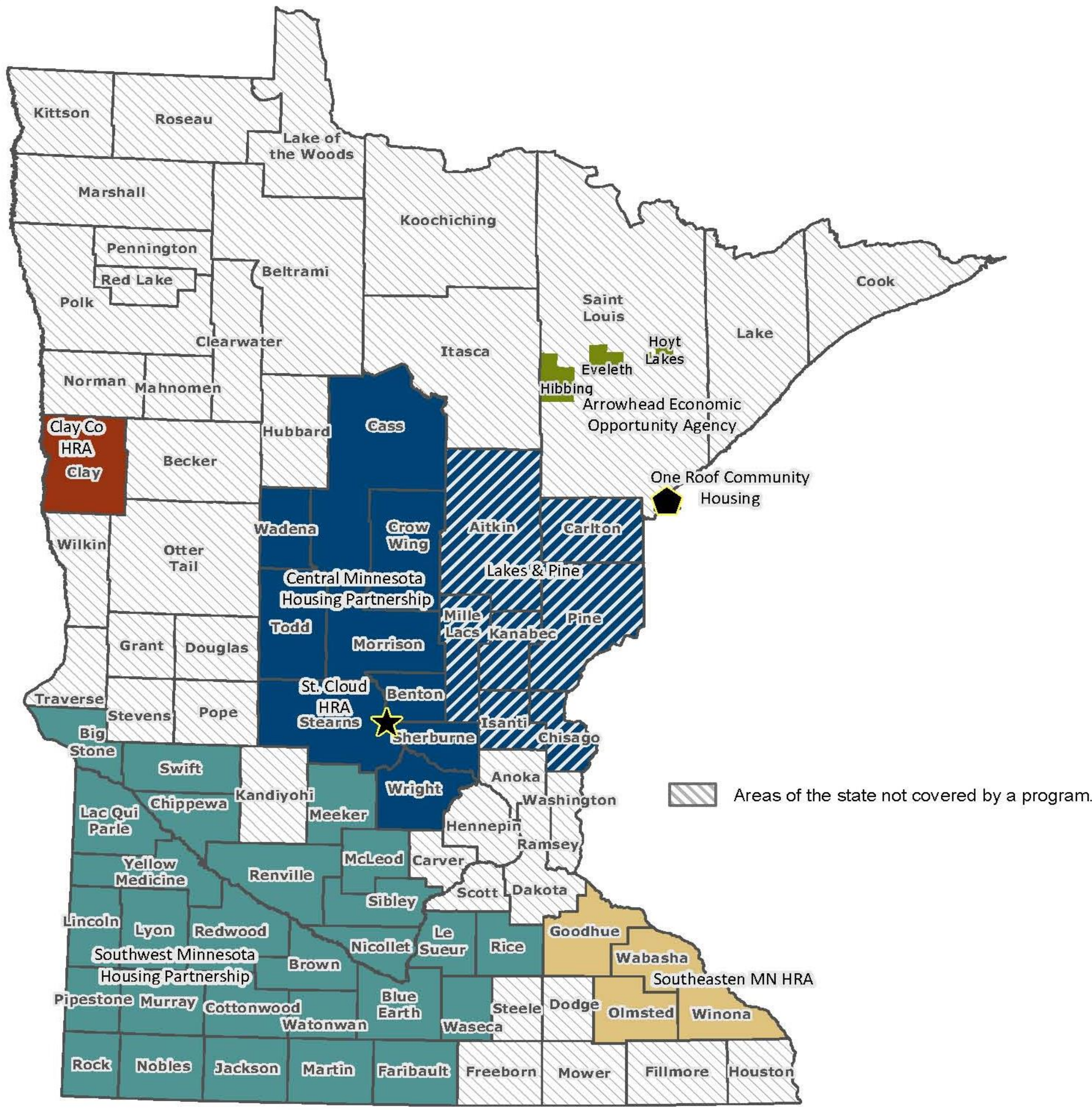
Approval of the pilot extension will ensure continuous availability of qualified and experienced administrators to complete the existing, and process the new, applications.

CONCLUSION:

In conclusion, staff requests Board approval of a motion authorizing the continuation of the RRDL Pilot Program for an additional 20 months through September 2015. Staff will continue to evaluate the pilot program through the completion of the Program Model cycle and report back to the Board with final program recommendations in spring of 2015.

Board Agenda Item: 7.B.
Attachment: Map of RRDL Program Area

Rental Rehabilitation Deferred Loan Pilot Program Program Administrators



St. Cloud HRA
Lreis@stcloudhra.com | (320) 252-0880

Arrowhead EOA
barbara.ackerson@aeoa.org | (218) 749-2912

Central MHP
Deanna@cmhp.net | (320) 259-0393

Clay County HRA
dlee@claycohra.com | (218) 233-8883

Lakes and Pines CAC
lezlies@lakesandpines.org | (320) 679-1800

One Roof Community Housing
cknettel@nhsduluth.org | (218) 727-5372

Southwest MHP
Lisag@swmhp.org | (507) 836-1614

Southeastern Multi-County HRA
jpwhra@wabasha.net | (651) 564-0266

Minnesota Housing Finance Agency

Date: 3/21/2013

Minnesota Housing Finance Agency

AGENDA ITEM: 7.C.
MINNESOTA HOUSING BOARD MEETING
December 19, 2013

ITEM: Amendment to the 2014 Affordable Housing Plan (AHP): Rental Rehabilitation Deferred Loan (RRDL) Pilot Program and Rental Rehabilitation Loan (RRL) Program

CONTACT: John Patterson 651-296-0763 john.patterson@state.mn.us
Susan Haugen, 651-296-9848 susan.haugen@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:

When the Board approved the 2014 AHP in September 2013, staff had based its recommended funding for the RRDL and RRL programs on previous production trends. Since September, the Agency has received higher than expected requests for these funds.

FISCAL IMPACT:

The following table shows the additional funds that the Agency would make available under the 2014 AHP.

Program	Original AHP Allocations	Revised AHP Allocations	Increase	Funding Source
RRDL	$ 3,138,000	$ 6,275,000	$ 3,137,000	State Appropriations
RRL	$ 0	$ 100,000	$ 100,000	Pool 2

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 Recommended Amendments

SUMMARY OF RECOMMENDED AMENDMENTS

Rental Rehabilitation Deferred Loan (RRDL) Pilot Program

The RRDL program provides deferred loans for improving residential rental properties. Production under the RRDL Pilot Program increased after program adjustments were made in May, 2013. Currently, more than 95% of the initial $8.5 million of RRDL funds have been identified for specific projects in Greater Minnesota. As administrators continue to accept applications and create a pipeline of waiting projects, the demand for these funds will soon exceed the amount available.

With increased demand and the proposed extension of the RRDL Pilot program through September 2015, staff recommends making the entire appropriations amount for the 2014-2015 biennium ($6.275 million) available under the 2014 AHP.

Rental Rehabilitation Loan (RRL) Program

The RRL program provides amortizing loans for improving residential rental properties. Loans are interest-bearing (6%) and fully amortizing for up to 15 years. Since the RRL program launch in 1990, the Agency has purchased over $23 million of loans from lenders to rehabilitate 5,770 rental units across the state of Minnesota. In 2011, the interest rate ceased to be competitive, and demand for the program diminished. During 2013 AHP, the Agency did not commit any RRL funds. Consequently, staff recommended suspending the RRL program and providing no funding under the 2014 AHP.

However, since the approval of the 2014 AHP, the Agency has learned that a few RRL applications are in process, either separately or in conjunction with the RRDL Pilot Program. Staff estimates that approximately $100,000 of Pool 2 resources are needed to purchase these remaining loans and phase out the program.

AGENDA ITEM: 7.D
MINNESOTA HOUSING BOARD MEETING
December 19, 2013

ITEM: Todd 27, Long Prairie D0710

CONTACT: Leslee Post, 651-296-8277
leslee.post@state.mn.us

REQUEST:

- [x] Approval
- [ ] Discussion
- [ ] Information

TYPE(S):

- [ ] Administrative
- [x] Commitment(s)
- [ ] Modification/Change
- [ ] Policy
- [x] Selection(s)
- [ ] Waiver(s)
- [ ] Other: ______________________________

ACTION:

- [ ] Motion
- [x] Resolution
- [ ] No Action Required

SUMMARY REQUEST:
Staff requests approval of a $100,000 asset management loan for window replacement.

FISCAL IMPACT:
In the current Affordable Housing Plan (AHP), the Board allocated $3,000,000 in new activity for the Asset Management loan program. Funding for this loan falls within the approved budget and the loan will be made at an interest rate and on terms consistent with what is described in the AHP.

MEETING AGENCY PRIORITIES:

- [ ] Promote and support successful homeownership
- [x] 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
- Resolution

Todd 27 is a 100% Section 8 development comprised of a 12 unit apartment building which contains one-bedroom units that are generally occupied by seniors and 32 two- and three-bedroom family units in six townhouse style buildings. The development is located in Long Prairie, which is in central Minnesota in Todd County, approximately 60 miles northwest of St. Cloud. Alexandria and Brainerd are 31 and 55 miles away, respectively.

The development has been very well maintained and, although the community profile reflects a 10% vacancy rate for subsidized affordable housing in the county; Todd 27 has historically experienced a low vacancy rate (2%). The current owner acquired the development in March 2009 and has continued to maintain the property in excellent condition.

Todd 27 was originally financed in 1980 with bonds that were part of the economic debt refunding in 2004. In 2011 the owner was offered an "04C" loan modification which:

1. Reduced the interest on the first mortgage from 7.25% to 2%; and,
2. Extended the term from April 1, 2021 to December 1, 2021; and,
3. Extended the Minimum Rent Subsidy Period (MRSP) by 10 years from June 25, 2020 to June 24, 2030.

The outstanding balance was re-amortized over the new term. The current unpaid principal balance of this loan is approximately $533,465.

Debt service savings resulting from the interest rate reduction ($2,570.17 per month) are deposited into a special escrow account and are available to fund improvements and/or operating deficits. The terms of the modification were effective October 1, 2011. Since that time, $61,683 in debt service savings have been deposited into the special escrow account; however, since acquiring the development the owner has spent $62,524 from reserves, including $26,026 from the special escrow account. The current balance in reserves is $119,281 which includes the Development Cost Escrow (DCE) as well as the special escrow, replacement cost reserve and residual receipts accounts.

The only major capital improvement anticipated in the next three years is replacement of the windows; the cost has been estimated at $125,000 with an additional $1,750 estimated for closing costs (legal/title/recording). Funding the entire cost of window replacement from reserves would eliminate all escrows, leaving insufficient funds for improvements anticipated in the future. The owner has requested an Asset Management loan in the amount of $100,000 which will be combined with funds from reserves to cover the estimated total cost of $126,750.

Staff recommends approval of the owner's request with the following terms:

1. The $100,000 asset management loan will be amortized over 20 years with a term of approximately six and a half years, such that the maturity date of the asset management loan will be coterminous with the existing first mortgage with a balloon payment due December 1, 2021; amortization will commence immediately.
2. The interest rate will be 0%.
3. The loan proceeds will be deposited into the special escrow at closing.
4. The MRSP will be extended from to June 24, 2030 to June 24, 2040 which would extend the owner's commitment to participate in the Section 8 program an additional 10 years, for a total of 20 years beyond the existing contract. The extended MRSP leverages just under $1,400,000 in federal subsidies over the additional 10 year extension and provides the Agency a 14:1 return on its $100,000 investment.

Board Agenda Item: 7.D
Attachment: Resolution

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

RESOLUTION NO. MHFA 13-

RESOLUTION APPROVING MORTGAGE LOAN SELECTION/COMMITMENT
ASSET MANAGEMENT LOAN PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $1,265,597 for permanent loan financing for a multifamily rental housing development known as Todd 27 in Long Prairie, Minnesota, MHFA Development No. 0710 (the Development); and

WHEREAS, Agency staff has proposed an agreement to finance window replacement at the Development based on the following terms:

Minnesota Housing will provide a $100,000 Asset Management loan with the following terms:

1. The loan will be amortized over 20 years with a term that is coterminous with the existing first mortgage; and,
2. Zero percent (0%) interest rate; and,
3. The maturity date will be December 1, 2021. The outstanding principal balance will be due in one lump sum payment at that time; and,
4. Amortization will commence immediately; and,
5. The loan proceeds will be deposited into the special escrow at closing; and,
6. The Minimum Rent Subsidy Period will be extended from to June 24, 2030 to June 24, 2040.

Closing will occur by November 30, 2014.

NOW THEREFORE, BE IT RESOLVED:

THAT, providing that the owner agrees to extend the Section 8 commitment for an additional 10 years, for a total of 20 years beyond the existing contract, the Board hereby authorizes commitment of the Asset Management loan (funded through the Housing Affordability Fund) under the terms stated above.

Adopted this 19th day of December, 2013.

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CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 8.A
MINNESOTA HOUSING BOARD MEETING
December 19, 2013

ITEM: Agency Risk Profile

CONTACT: Will Thompson, 651-296-9813
will.thompson@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 faces a number of critical risks to achieving its objectives. The Agency Risk Profile is a component of the Enterprise Risk Management (ERM) framework and is produced to demonstrate and communicate critical risk information to the board.

FISCAL IMPACT:
None.

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:
- Agency Risk Profile.

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Agency Risk Profile

December 2013

Risk Management

Minnesota Housing Finance Agency

Introduction

A risk profile is defined as a periodic documentation of the critical risks to an organization to achieving its stated objectives over a specified future time period. Critical risk is defined as the chance of something happening that would have a clear and direct impact on the achievement of Agency objectives.

The primary purpose for an Agency Risk Profile is to assist the Commissioner, Chief Risk Officer and management team in communicating risk-related issues with the Board.

This risk profile was developed with input from eight members of the Risk Management Committee and their selected staff members. Staff was directed to complete individualized components of an online Agency Risk Profile which contained previously identified critical sources of risks to the Agency. For selected risk sources staff was asked to assess and provide:

- The impact to the Agency should these identified risks occur
- The likelihood of these risks occurring
- The strength of controls in place to prevent, or lessen the impact, of the identified risks
- Additional comments regarding the identified risks.

Risk source assessments are intended to focus on critical risks confronting the Agency that may impact the Agency's ability to achieve the goals of its 2013 – 2015 Strategic Plan and/or 2014 Affordable Housing Plan.

Risk sources were assessed using risk impact, likelihood, and assurance; definitions of these terms are contained in Appendix A.

A Risk Level for each critical risk source was determined according to a Risk Assessment Matrix, which is contained in Appendix B.

Agency Risk Profile

The Agency Risk Profile is comprised of an Executive Summary, Aggregate Results Heat Map Current and Previous Year, Risk Profile Matrix and Risk Source Narratives.

Executive Summary

The current dynamic business environment and market uncertainty will continue to require ongoing, rapid changes to the Agency’s business model. The Agency's work environment consists of volatile and complex housing and finance markets and numerous legal and regulatory rules, and involves many counterparties. It is highly likely that the capital markets will remain volatile for at least the next several years as the Federal Reserve recently concluded that its low interest rate policies are still needed to invigorate a subpar U.S. economy. There is widespread recognition that the Agency is evolving as an organization. Recent changes to programs, financing strategies, and supporting technology were considered during the development of this Risk Profile. Eleven risk sources were assessed, and none received a Very High risk level ranking. Five risk sources received a High risk level ranking, which increased by one from the previous year. Overall, the Agency is well aware of these critical sources of risk and has executed, or is contemplating, mitigation strategies to address them.

Aggregate Results Heat Map

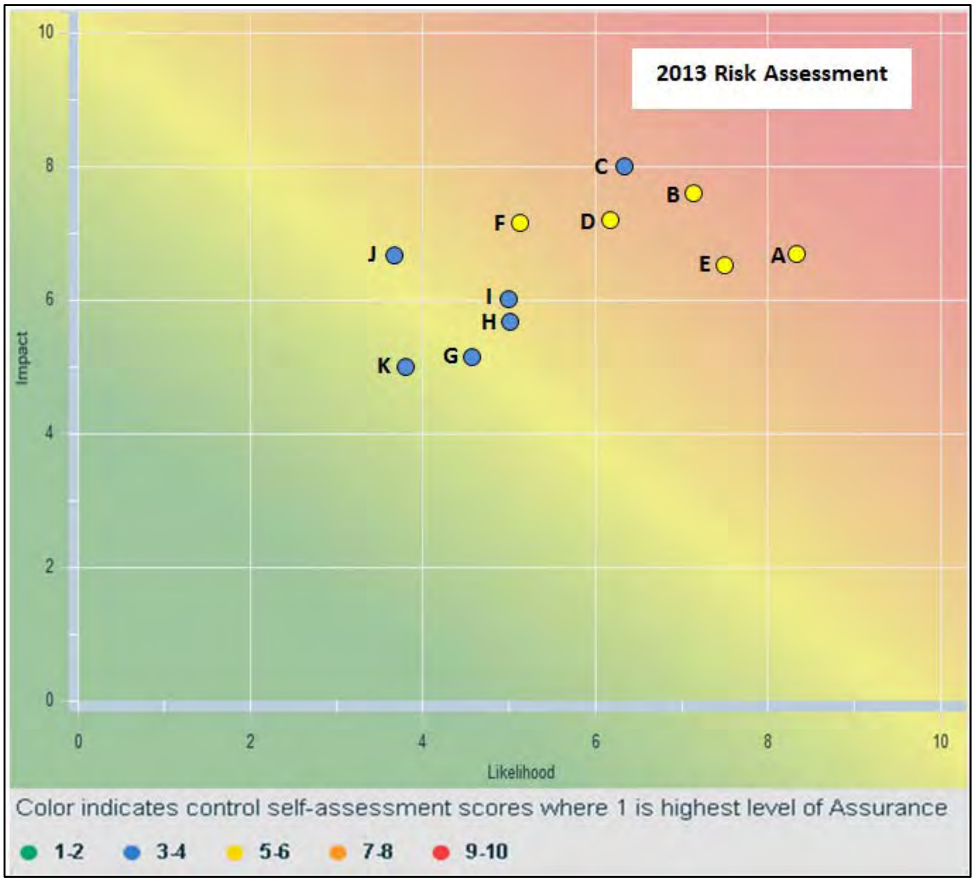
Current and previous year aggregate results of critical risk source assessments have been plotted to a heat map graph, shown below.

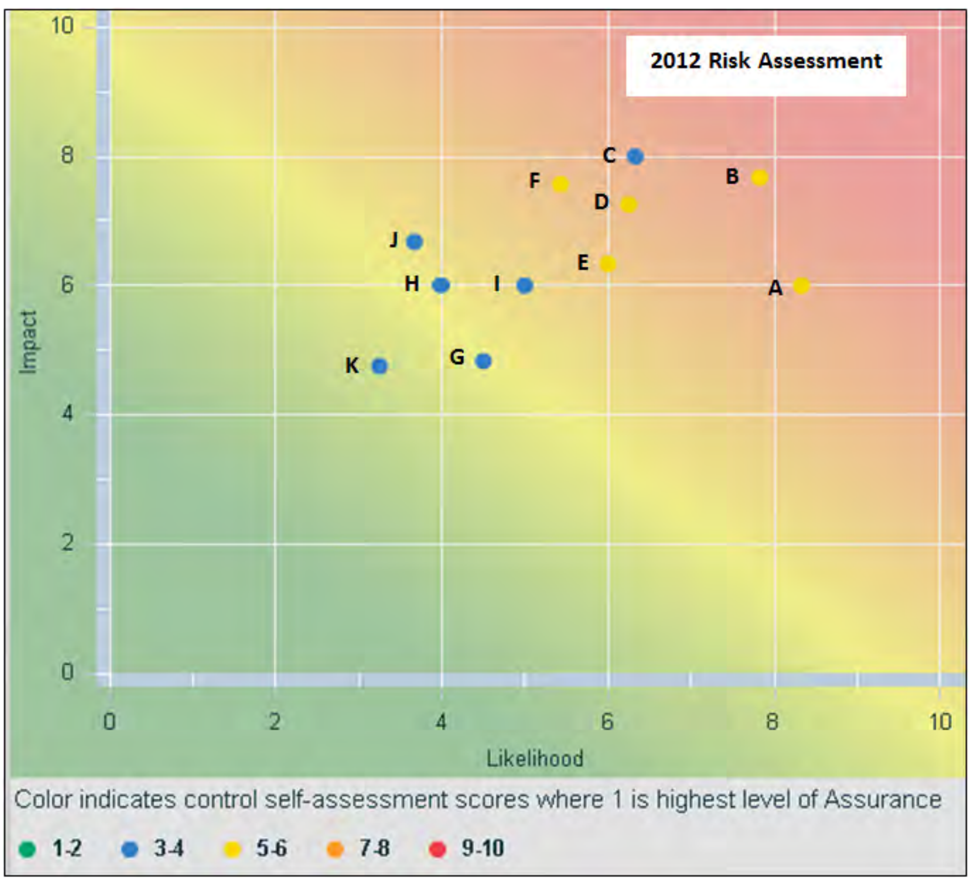
Heat maps are a graphical representation of data where the individual values contained in a matrix are represented as colors. The heat map is intended to visually convey which risk sources pose the greatest challenges to the achievement of Agency objectives. Generally, assessed sources of risk that are plotted in the upper right quadrant of the grid have a greater impact and a higher likelihood of occurrence. The color of the plotted data point for each risk source indicates the level of assurance staff has in existing controls and mitigation strategies.

An Inherent Index score is calculated by multiplying the assessed impact by the likelihood. The Inherent Index is designed to measure the risk that an activity would pose if no controls or other mitigating factors were in place.

The Residual Index measures the risk that remains after controls and mitigation activities are taken into account. A Residual Index score is calculated by multiplying the assessed impact by likelihood by level of Assurance. Residual Index tiering has been incorporated into the Risk Assessment Matrix (Appendix B) to better delineate risk levels.

Additional information regarding heat maps and the calculation of Inherent and Residual Indexes is contained in Appendix C.





A	Interest Rates
B	Information Technology
C	Bond Markets
D	Counterparties
E	Federal Resources
F	Operational Capacity
G	Compliance
H	Loan Performance
I	State Appropriations
J	Business Continuity
K	Planning and Execution

Risk Profile Matrix

Updates to the Risk Profile Matrix include risks that have been added or removed, trends and previous ratings for comparison.

The Risk Profile has been arranged into a "Top Eleven" format and lists first the higher level critical risk sources as determined by scoring on the Risk Assessment Matrix (Appendix B).

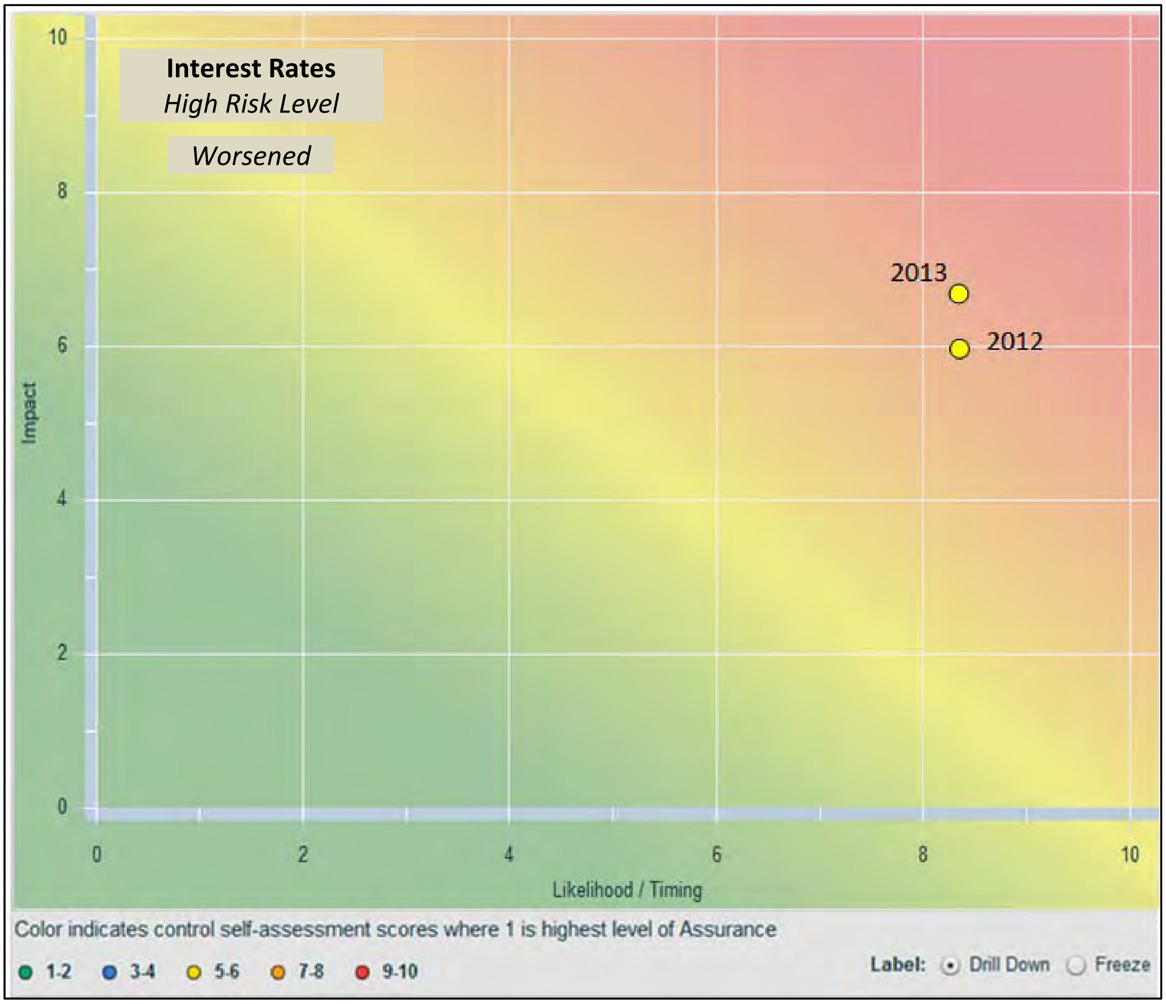
The Risk Profile Matrix lists the 11 previously identified critical sources of risk. The matrix lists the risk sources, from the highest to lowest risk level, as determined by the Residual Index score.

Two critical sources of risk have a higher level of assessed residual risk in 2013 than in 2012. Federal Resources moved from Moderate to High and Loan Performance moved from Low to Moderate. Additional detail on these and other risk sources is available in the Risk Source Narratives.

		2013 Risk Level		2012 Risk Level		2011 Risk Level	'12 to '13 Change
		Residual Index	Inherent Index	Residual Index	Inherent Index	*Index scores not available*	
A	Interest Rates	337	57	298	52	High	Worsened
B	Information Technology	331	54	344	60	High	Improved
C	Bond Markets	238	51	238	51	High	No Change
D	Counterparties	237	44	267	45	Moderate	Improved
E	Federal Resources	236	49	192	38	Moderate	Worsened
F	Operational Capacity	175	36	191	40	Moderate	Improved
G	Compliance	118	24	102	22	Moderate	Worsened
H	Loan Performance	109	28	96	24	Not Identified	Worsened
I	State Appropriations	105	30	120	30	Moderate	Improved
J	Business Continuity	76	26	87	26	High	Improved
K	Planning and Execution	68	22	49	18	Moderate	Worsened

Risk Source Narratives

The Risk Source Narratives describe the source of each risk, the objectives impacted by that risk and any mitigating actions that are in place or planned.



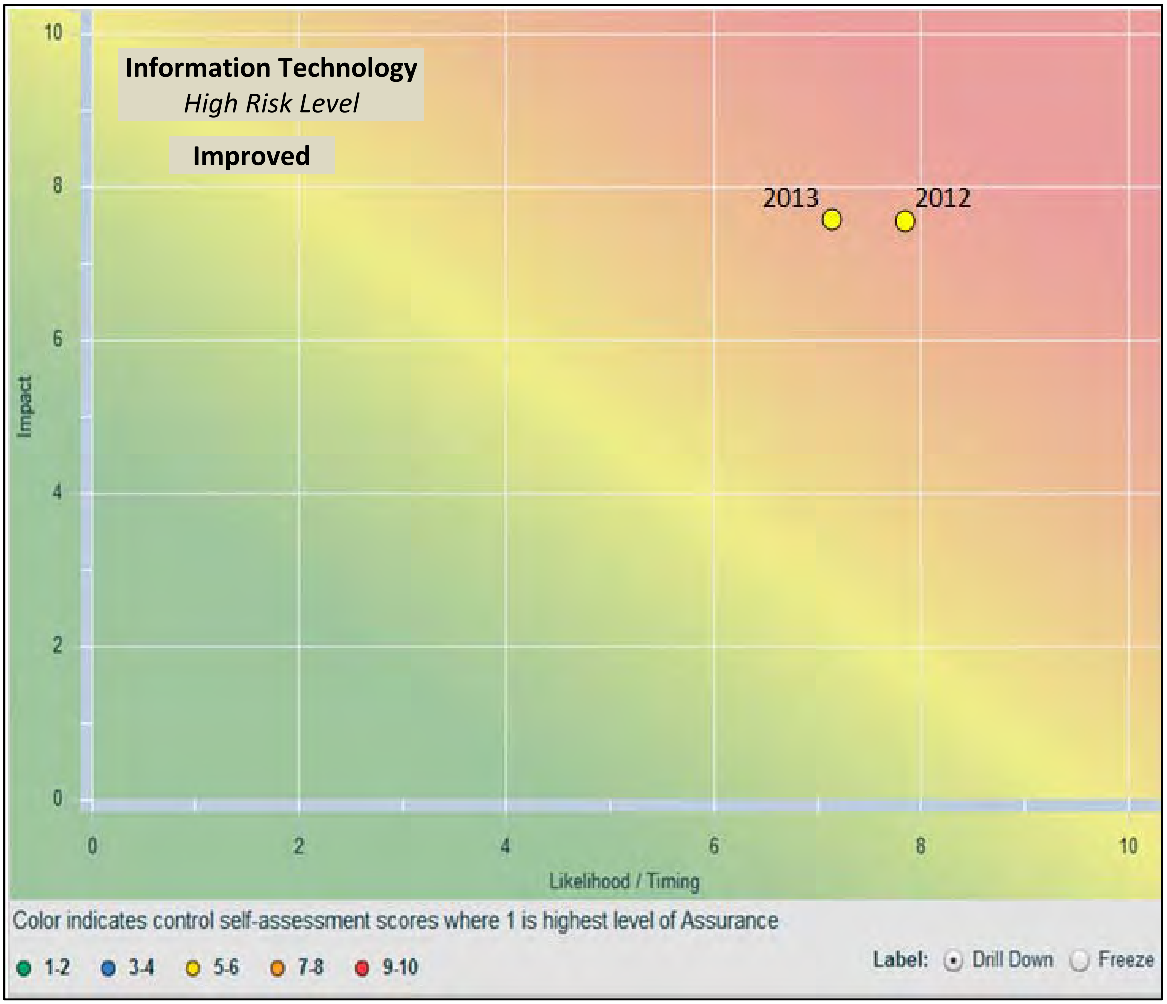
	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.00)	Likely (8.33)	Could Be Improved (5)	High (52)	High (298)
2013	Serious (6.67)	Likely (8.33)	Could Be Improved (5)	High (57)	High (337)

Overall, interest rates were assessed as a high risk source, which is unchanged from the previous assessment. An increase in the assessed impact from Moderate (6) to Serious (6.67) drove up the residual index from 298 to 337. The higher assessed impact reflects a slight recalibration in sensitivity due to interest rate movements. Interest rate management is a key activity at Minnesota Housing because the Agency's large portfolio of assets is the primary revenue-generation tool. Continued volatility of interest rates is highly likely in the current economic environment. Interest rate volatility is out of the Agency's control; however, depending on the interest rate environment, the Agency encounters both challenges and opportunities. Interest rates in the general economy can at any time rise (high rate environment) or fall (low rate environment). Each scenario presents unique challenges to the Agency's business model. The Agency is currently in a low rate environment. A low interest rate environment, which benefits borrowers, is stressful to the Agency's financial results. Low rate environments generally cause high rates of mortgage loan prepayments, challenging the Agency to produce enough new lending to repopulate the balance sheet with assets at acceptable yield levels. In this environment, Agency interest rates are often very similar to rates in the conventional market, so loan production is maintained partially with use of scarce mortgage enhancements (i.e., deferred loans and grants). Assets held as cash in low rate environments produce diminished investment income, including periods of negative arbitrage when prepayments received are temporarily invested below bond yield until bonds can be repaid with the prepayments. Low rates also diminish earnings on committed but undisbursed state appropriations, resulting in less potential for overhead recovery payments to cover actual costs. Short term volatility in interest rates is also a risk because there is a time differential between when the Agency commits to purchase a loan and when the loan is delivered to and financed by the Agency. If interest rates rise dramatically in that time period, the Agency's anticipated profitability can be greatly reduced, eliminated or turned into a loss. While interest rate risks are currently monitored in an effective manner, the increase in packaging loans for sale in the securitization market has increased the volume of loans that are subject to interest rate movements.

Effectiveness of Control / Mitigation Activities:
Several aspects of interest rate management require careful management to affect the desired long-term impacts. These aspects include:

- Maximizing interest rate spread on bonds
- Hedging exposure to variable rate debt
- Setting program interest rates in a market-sensitive manner
- Loan warehousing
- Effective loan pipeline management
- Selling the Agency's mortgage-backed securities on the secondary market

Additionally, technically competent and experienced Agency staff has the ability to take advantage of short-term opportunities in a low or high rate environment while ensuring long-term financial viability due to continuous discipline and sound ethical decision-making skills at all levels of the Agency.



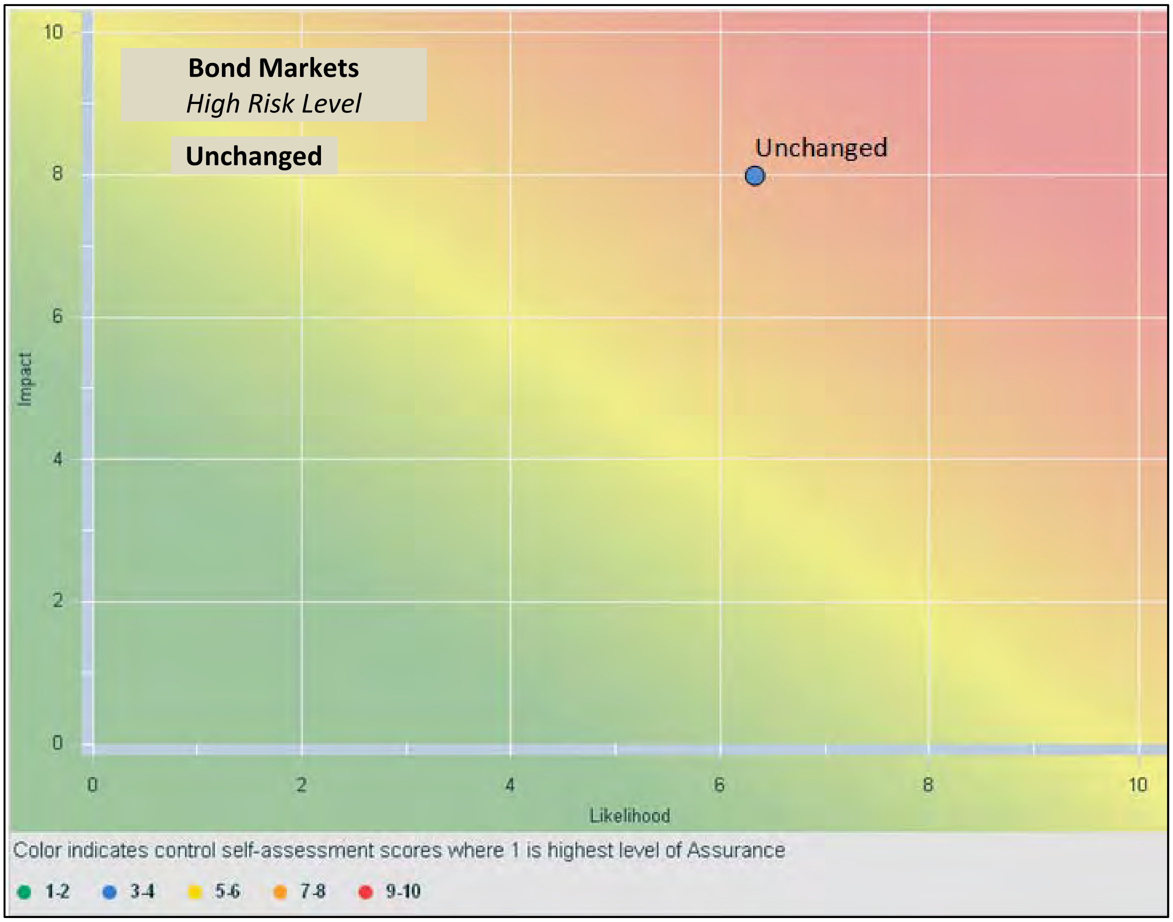
	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.67)	Likely (7.83)	Could Be Improved (5.50)	High (60)	High (344)
2013	Serious (7.57)	Likely (7.14)	Could Be Improved (5.43)	High (54)	High (311)

Information Technology (IT) is assessed as a high risk source, which is unchanged from the previous assessment. A decrease in the assessed likelihood from Likely (7.83) to Likely (7.14) drove down the residual index from 344 to 311. The lower assessed likelihood reflects a slight recalibration in sensitivity due to the completion of two major technology projects in 2013 and increasing confidence in the process to identify, request, explore, approve and track new technology projects. The Agency's work environment consists of volatile and complex housing and finance markets and numerous legal and regulatory rules, and involves many counterparties. Each aspect of this environment requires information technology systems to make them work effectively. Systems in place today have been effective and have passed risk, audit and compliance standards tested in our financial audit. The need to adapt quickly, increasing compliance requirements, and sophistication in the type of funding sources used to fund Agency programs underscore the need for adequate technology to access potential new sources of capital while lessening the likelihood of compliance failures. The Agency retained control of critical IT resources with an exemption from statewide consolidation of information technology systems under the Office of Enterprise Technology (OET); however, high levels of risk to implementing efficient and effective IT systems remain. Identified risks include:

- Business line and BTS personnel must develop deeper understanding of the business requirements to determine the most effective technology solutions.
- Communications between Business line and BTS personnel must be enhanced to implement the most effective technology solutions.
- Strong project management practices and realistic timelines are needed to successfully implement technology solutions.
- Adequate staff resources both in BTS and the business lines are needed to support Agency information technology systems projects.
- Current State of Minnesota contracting procedures make it difficult to procure needed software or services on a timely basis.

There is a visible executive leadership for technology and business process improvements and increased staff communication regarding information technology systems projects.

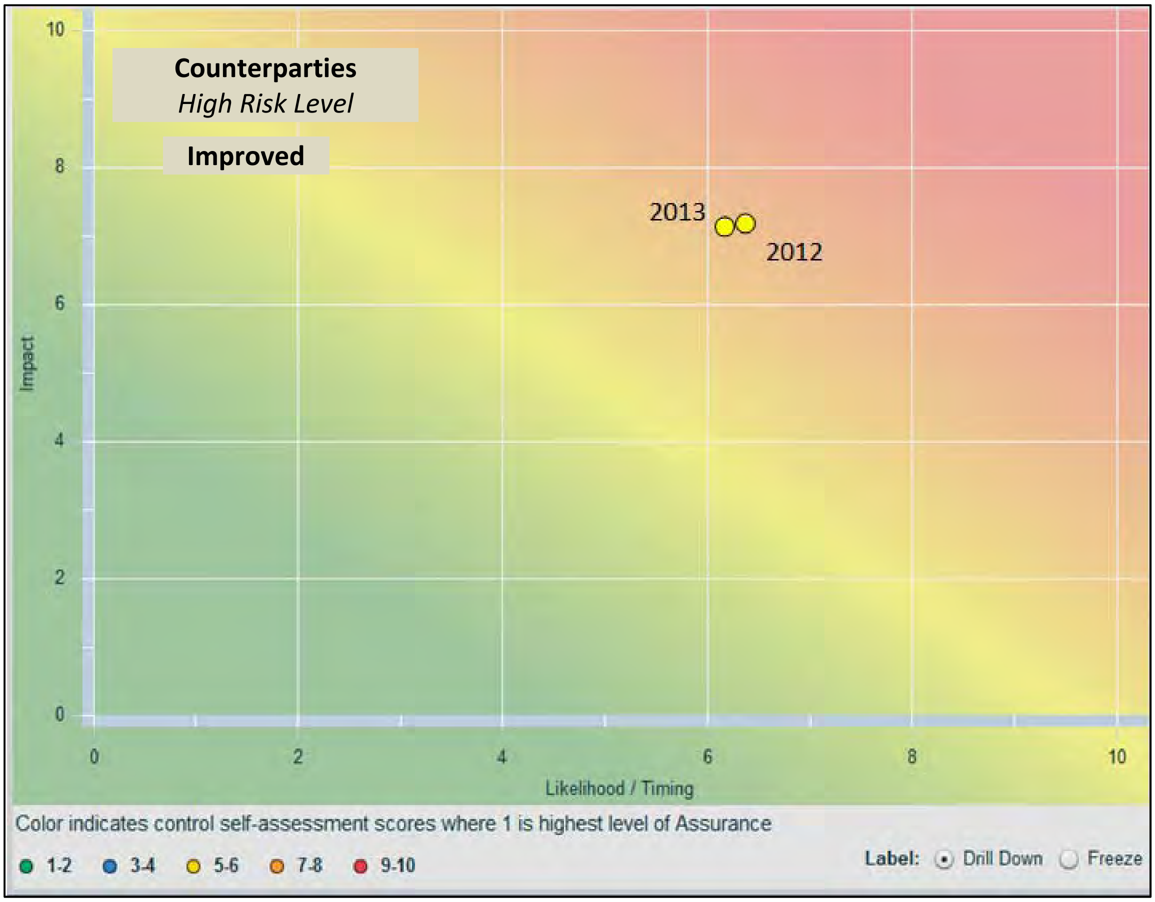
Effectiveness of Control / Mitigation Activities:
The Agency increased both its Business Technology Support (BTS) staffing and operations budget while developing a process to identify, request, explore, approve and track new technology projects. The Agency web site was recently upgraded, a new phone system was installed, and all new computers with upgraded operating systems were deployed. Technology improvements are identified as a priority in the 2013 – 2015 Strategic Plan. BTS developed a Technology Roadmap which contains 150 projects with five major projects selected for initial completion within the next 18 months. Two of the major projects, Property Online Reporting Tool (PORT) and the Agency Website, have been completed, and a new, comprehensive loan servicing system is in the final stages of testing. The Agency developed a Business Technology Investment Committee (BTIC) comprised of the Commissioner, Deputy Commissioner, Chief Financial Officer (CFO) and Chief Information Officer (CIO) to prioritize and coordinate technology investments. A re-established Operations Committee, which is comprised of the Deputy Commissioner, CIO and Director of Operations, is tasked to resolve administrative and operational issues.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (8)	About as Likely as Not (6.33)	Good (4)	High (45)	High (238)
2013	Serious (8)	About as Likely as Not (6.33)	Good (4)	High (51)	High (238)

Bond Markets are assessed as a high risk source, which is unchanged from the previous assessment. Assessed impact, likelihood and assurance are unchanged from the previous assessment. Volatility in the tax-exempt bond market continues to restrict the Agency's ability to effectively utilize bonds as the primary capital source for funding single family and multifamily mortgages. Additionally, turmoil in the capital markets may cause difficulty in raising capital at rates that allow the Agency to re-loan the proceeds at competitive rates and still earn sufficient spread to maintain the Agency's strong financial position. The Agency relies on the capital markets to fund its largest and most profitable programs.

Effectiveness of Control / Mitigation Activities:
The market remains volatile by any measure and while there is nothing that the Agency can do to mitigate the volatility of the market, there is a technically competent and experienced finance team in place. The Agency can use a tax-exempt mortgage-backed securities monthly-pass through structure or shift to selling off loan production in the To Be Announced (TBA) market without having to sell bonds if that proves to be a more attractive financing alternative. Additionally, the Agency added a new loan financing strategy that utilizes the tax-exempt sales of single mortgage-backed securities to enhance a flexible and nimble response to changing market conditions.

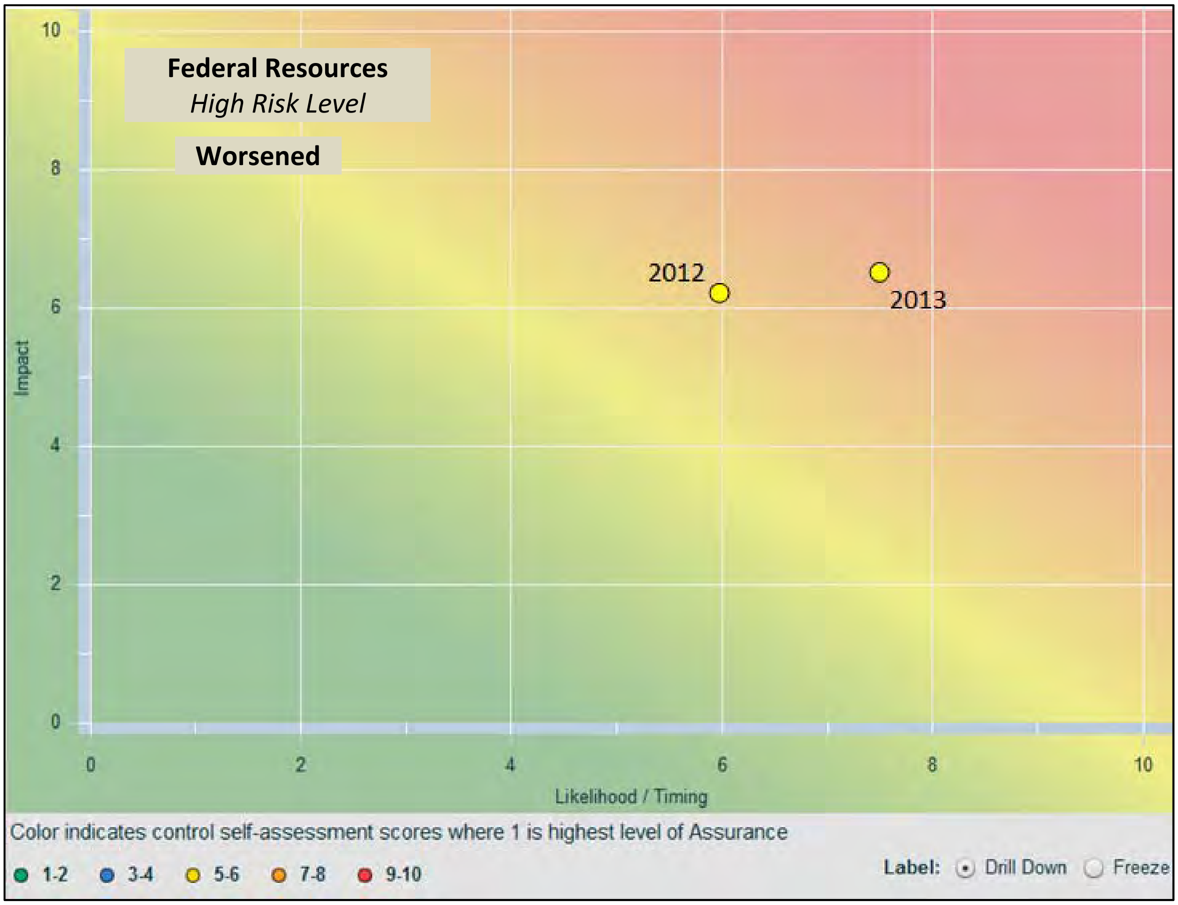


	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.25)	About as Likely as Not (6.25)	Could Be Improved (5.75)	High (45)	High (267)
2013	Serious (7.17)	About as Likely as Not (6.17)	Could Be Improved (5.33)	High (44)	High (237)

Counterparties are assessed as a high risk source, which is unchanged from the previous assessment. A slight decrease in the assessed impact and likelihood, combined with a slight improvement in assurance, drove down the residual index from 344 to 311. The lower residual index is primarily a result of additional Agency staff evaluating this risk source. Counterparties are vital to the Agency accomplishing its strategic and affordable housing plans. Counterparties include Government-Sponsored Enterprises (GSEs), Credit Rating Agencies, Capital Markets participants, Lenders, Guaranteed Investment Contract (GIC) Providers, Brokers, Realtors, Grantees, Sub-Grantees, Vendors and Borrowers. The likelihood of disruptions to Agency activities by counterparties is recognized as a concern. There is still a great deal of uncertainty around the fate of GSEs . Agency relationships with lenders impact its ability to conduct and attract new businesses. Complex policies, processes and deadlines in working with state contracted vendors increase costs. Lack of competition at the master servicer level leaves the Agency vulnerable in terms of influencing program policies and protocols. Nonprofit and government program administrators continue to find it difficult to raise capital to fund operations and services in the current economic environment.

Effectiveness of Control / Mitigation Activities:

Counterparty risk is addressed on an ongoing basis through strengthening relationships with sole source providers and developing alternative processes when necessary. The Agency can comment on the GSEs' fate through its membership in the National Council of State Housing Agencies (NCSHA); however, it cannot control the outcome. The Agency continues to work with lenders and other key counterparties to better understand process, program and technological needs. The Agency has recently reviewed and updated Request for Information and Request for Proposal documentation to solicit better requests from counterparties. The Agency performed enhanced counterparty due diligence for organizations that applied for Homeownership Impact and Ending Long-Term Homelessness Initiative Fund resources during 2013 and is evaluating additional due diligence processes for 2014.

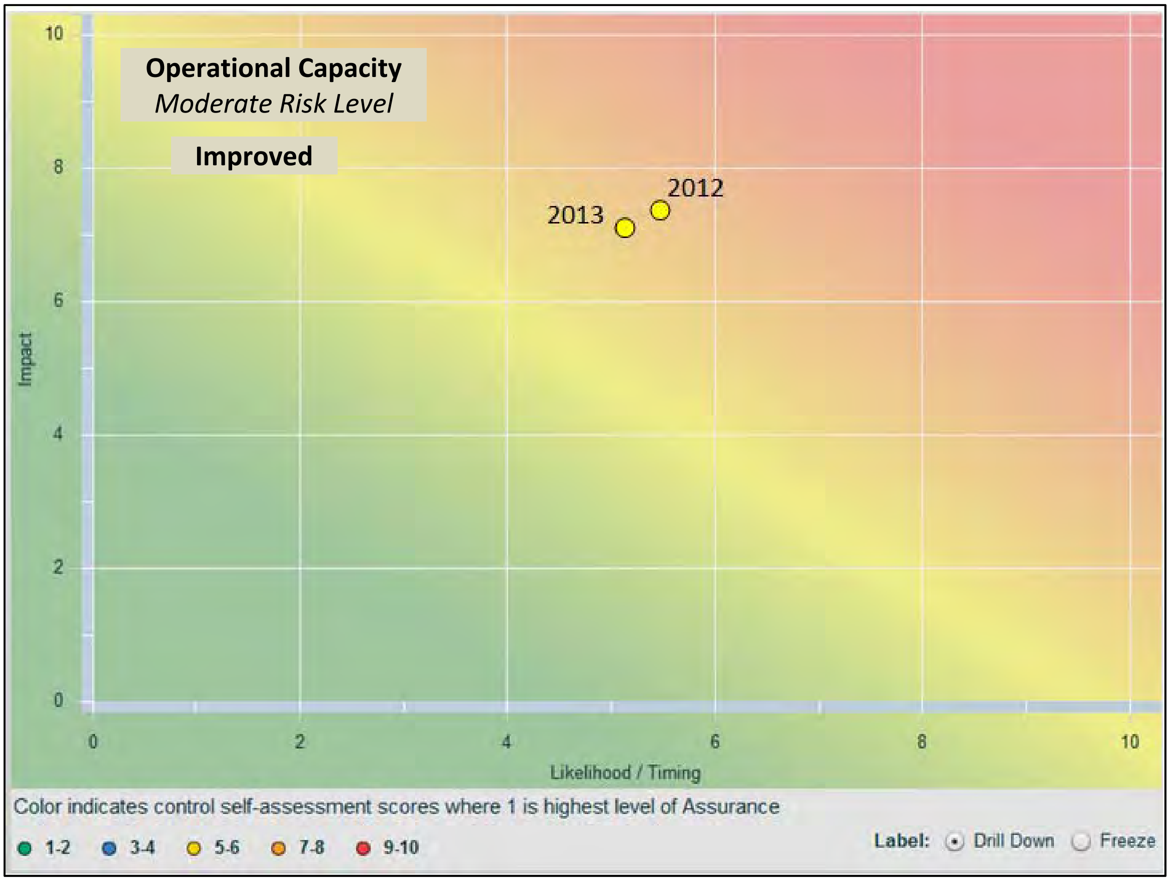


	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.33)	About as Likely as Not (6.0)	Could Be Improved (5.0)	High (38)	Moderate (192)
2013	Serious (6.50)	Likely (7.5)	Could Be Improved (4.5)	High (49)	High (236)

Federal Resources are assessed as a high risk source, which is an increase to the moderate assessed risk level from the previous assessment. An increase in the assessed likelihood from About as Likely as Not (6) to Likely (7.5) drove the residual index up from 192 to 236. The higher assessed likelihood reflects the notion that federal resources will continue to diminish. Because federal funds are a critical source of funding for a number of Agency programs; diminishing federal resources are an Agency-wide concern. Given the large size of federal budget deficits it is highly likely that there will be continuing pressures to reduce federal resources for housing. A reduction will likely mean that the Agency must reduce the level of activity that it is able to fund and could fail to achieve current program goals.

Effectiveness of Control / Mitigation Activities:

The Agency actively participates in federal policy initiatives through its national organization, the National Council of State Housing Agencies (NCSHA), and regularly meets with its congressional delegation to demonstrate the positive impact of programs funded with federal resources, but the complexity and severity of the budget deficit makes it a difficult risk source to mitigate. The Agency focuses compliance efforts on programs with federal funding to ensure that funds are not lost due to non-compliance.

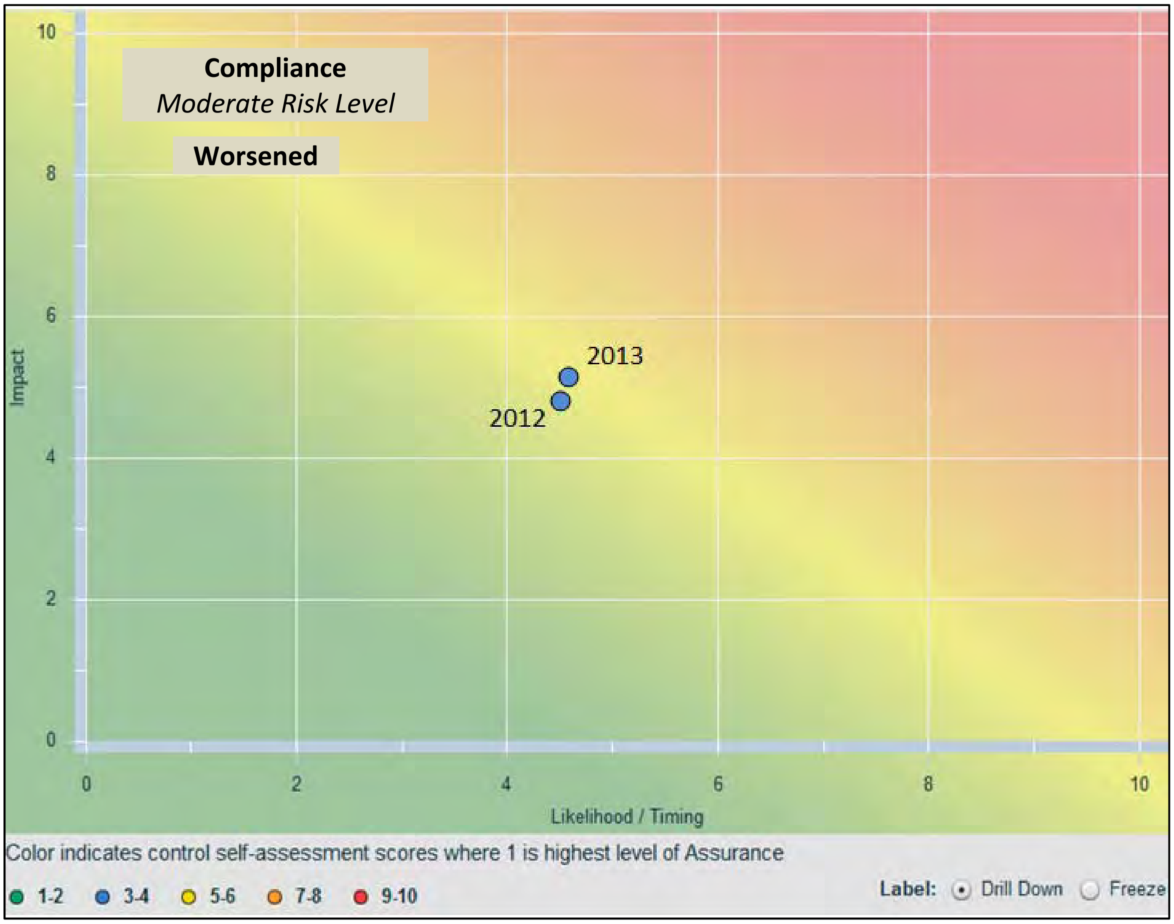


	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.57)	About as Likely as Not (5.43)	Could Be Improved (4.57)	High (40)	Moderate (191)
2013	Serious (7.13)	About as Likely as Not (5.13)	Could Be Improved (4.63)	High (36)	Moderate (175)

Operational Capacity is assessed as a moderate risk source, which is unchanged from the previous assessment. A slight decrease in the assessed impact and likelihood, combined with a slight deterioration in assurance, drove down the residual index from 191 to 175. The lower residual index is primarily a result of additional professional training for existing staff and the Agency's current capacity to recruit qualified candidates to fill vacancies. Having a strong organizational capacity is fundamental to the Agency's ability to implement effective strategies and fulfill its mission. Approximately one third of Agency employees are currently eligible to retire. In five years 60% of the Senior Leadership Team will be eligible to retire. The business is becoming more and more complex, leading to the possibility that positions will need to be upgraded to attract qualified replacements. State salaries are considered low and recruiting a pool of qualified replacements is important. In many areas of the Agency, there is a perceived demand to do an immense amount of work with limited resources.

Effectiveness of Control / Mitigation Activities:
Strengthening organizational capacity is a priority of the Strategic Plan, specifically areas related to the work force planning, professional development, managing risks, and improving business processes and technology. The Agency added four Full Time Equivalents (FTE's) to the 2014 operating budget and has hired 31 employees since November 2012. The Agency completed a year-long series of professional

development workshops on a variety of topics including business writing, effective presentations, project management, leadership from within, federal contract compliance, and negotiations and conflict management. The Agency developed and implemented a new recruiting plan that includes updating job descriptions before posting positions, using new recruiting outlets, and working with hiring managers on interviewing and selection. The Agency has enhanced its on boarding for new employees and is in the process of adding a new manager module. The Agency completed a compensation study and is using that at the state level to affect compensation changes. An employee engagement survey is routinely conducted and findings acted upon. To improve first mortgage loan capacity, the Agency repositioned its single family lending products and received approval as an FHA Multifamily Accelerated Processing lender.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (4.83)	Unlikely (4.50)	Good (4.33)	Moderate (22)	Moderate (102)
2013	Moderate (5.14)	Unlikely (4.57)	Good (4.43)	Moderate (24)	Moderate (118)

Compliance is assessed as a moderate risk source, which is unchanged from the previous assessment. A slight increase in the assessed impact from Moderate (4.83) to Moderate (5.14) drove the residual index up from 102 to 118. The higher assessed impact is due to an Agency-wide focus on improved records management, increased compliance requirements related to the Consumer Financial Protection Bureau amending Regulation X, which implements the Real Estate Settlement Procedures Act of 1974, amending Regulation Z, which implements the Truth in Lending Act, and the complexity of the newly published Final Rule amending the HOME Investment Partnerships (HOME) Program regulations. Each funding source and program (old, existing, new) involves compliance requirements; some can be very complex and cumbersome. The Agency has staff that understands the compliance requirements, but there is some turnover and new and changing requirements are a reality. The business systems to help track and report on compliance are varied, not well integrated, outdated, and not well known by a variety of staff.

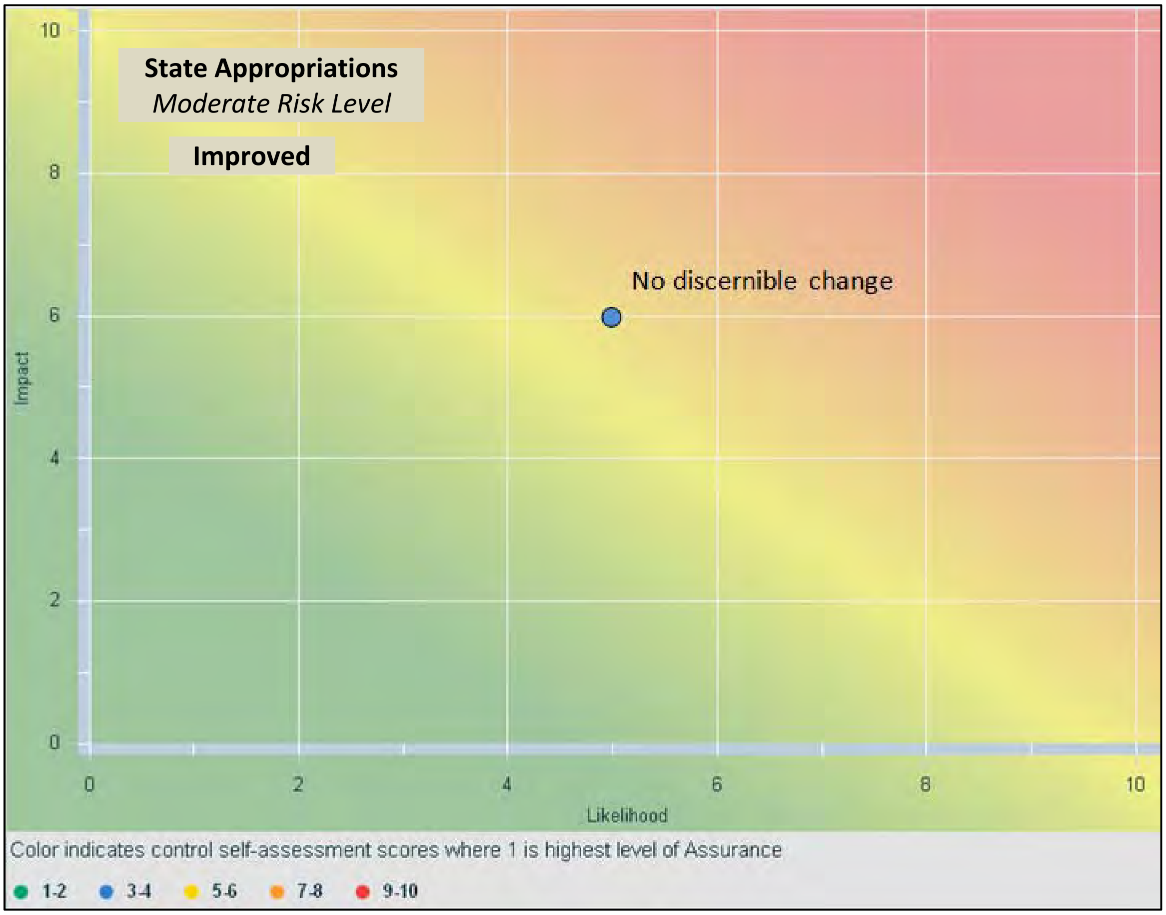
Effectiveness of Control / Mitigation Activities:
The Agency has identified several compliance related projects as part of its technology roadmap. The Property Online Reporting Tool (PORT) was launched and is expected to be fully implemented by 2014.

The Agency has secured a vendor and product for its enterprise content management system, which is the foundation for the new document management and records retention systems. The Agency is updating all required record retention schedules and having them approved by the Minnesota Historical Society. This work should be completed by end of June 2014. Related to Data Practices, the Agency designated a new Responsible Authority, Data Practices Compliance Officer, and Division designees, updated the Data Practices Manual, and provided training to staff. Because there is a consistent negative financial risk to the Agency for federal non-compliance, staff has been allocated to provide the appropriate level of compliance. Conditions continue to improve, as demonstrated by another Annual Contract Review (ACR) period with no audit findings for the Performance-Based Contract Administration (PBCA) program audit and good audit results for the Housing for Persons with HIV/AIDS (HOPWA) Program. The Agency was not audited on HOME, the National Foreclosure Mitigation Counseling (NFMC) Program or the Neighborhood Stabilization Program (NSP) during the last twelve months.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.00)	Unlikely (4)	Good (4.00)	Moderate (24)	Low (96)
2013	Moderate (5.67)	About as Likely as Not (5)	Good (3.67)	Moderate (28)	Moderate (109)

Loan Performance is assessed as a medium risk source, which is an increase to the previously assessed low risk level. An increase in the assessed likelihood from Unlikely (4) to About as Likely as Not (5) drove the residual index up from 96 to 109. The higher assessed likelihood reflects the notion that loan losses from the single family whole loans will continue as the portfolio runs off. The Agency has a single family whole loan portfolio in excess of $1.1 billion, a $350 million portfolio of largely uninsured multifamily first mortgage loans and over $100 million of uninsured second mortgages. The Agency is at risk of financial loss in the event of a severe downturn in the real estate markets. Losses resulting from the recent economic downturn and subsequent collapse of the single family housing market already cumulatively exceed $50 million. Losses are slowing down as the real estate market is improving, and as the whole loan portfolio pays off and is replaced with Mortgage Backed Securities. Also, new multifamily loan production is partially insured under the HUD Risk Sharing program, and the older uninsured loans are gradually paying off.

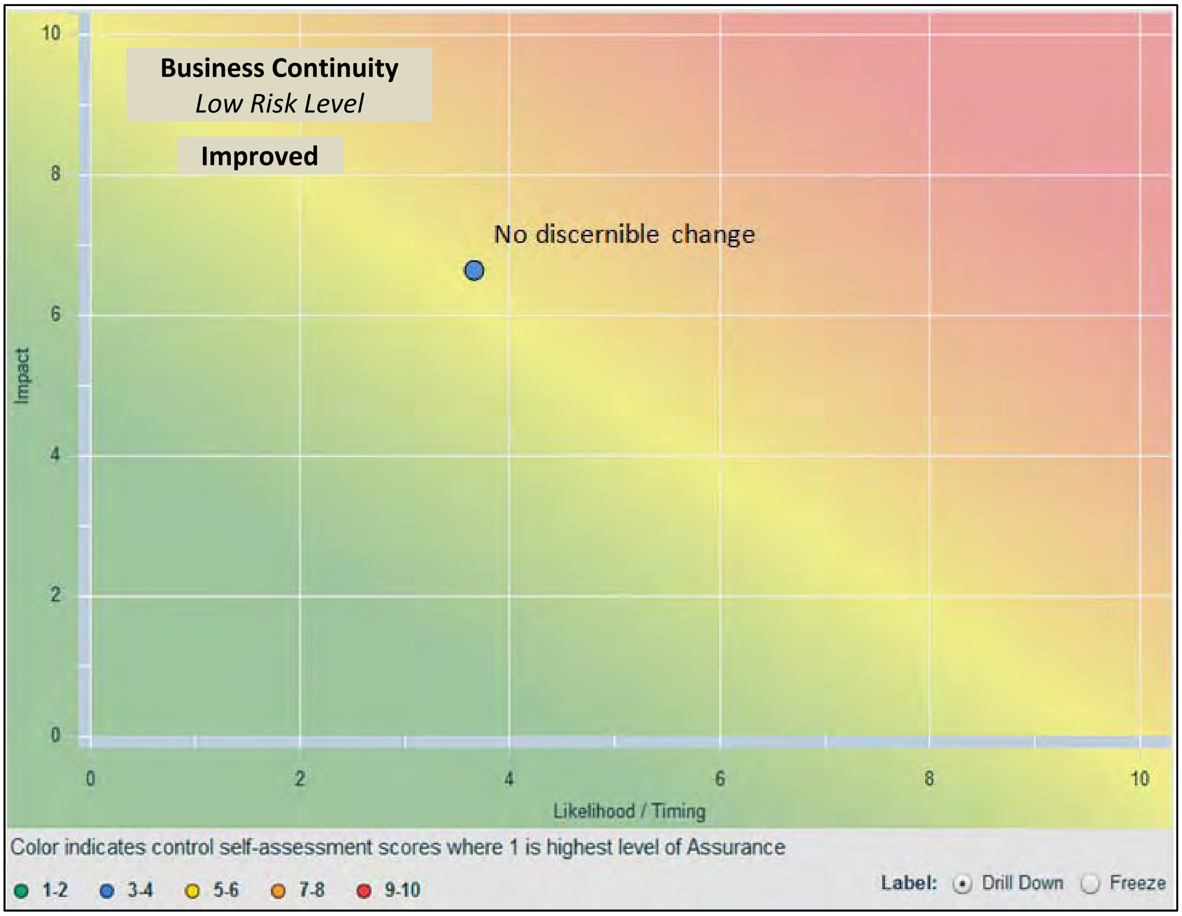
Effectiveness of Control / Mitigation Activities:
Effective asset monitoring policies and procedures and competent staff are considered effective control activities. Agency staff has worked closely with loan servicers and has supported a variety of efforts to reduce both loan delinquency and loss severities.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6)	About as Likely as Not (5)	Good (4.0)	High (30)	Moderate (120)
2013	Moderate (6)	About as Likely as Not (5)	Good (3.5)	High (30)	Moderate (105)

State Appropriations are assessed as a moderate risk source, which is unchanged from the previous assessment. Assessed impact and likelihood are unchanged from the previous assessment. Assurance improved nominally and remains at Good. Diminishing state appropriations will likely result in reductions in program activity and may require that some current activities be reduced or eliminated. State resources are critically important for funding certain activities, especially the Housing Trust Fund (HTF), which is used for on-going rental assistance. The state is expected to have a balanced budget next year, following tax increases passed by the 2013 legislature. The Agency received a 33% increase in its biennial budget from $76.1 million for the FY 201-2013 biennium to $10.5 million for the FY 2014-2015 biennium. The Agency's programs have continued to enjoy broad bipartisan support.

Effectiveness of Control / Mitigation Activities:
The Agency has a strong policy team and is broadly supported by external advocacy groups. This is essential and helpful in mitigating potential cuts, but competing priorities from other parts of the state budget are always a threat. The Agency has some flexibility with Pool 3 funds, but resources are limited.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (6.67)	Unlikely (3.67)	Good (3)	Moderate (26)	Low (87)
2013	Serious (6.67)	Unlikely (3.67)	Good (3)	Moderate (26)	Low (76)

Business Continuity is assessed as a low risk source, which is unchanged from the previous assessment. Assessed impact, likelihood and assurance are all unchanged from the previous assessment. Business Continuity is defined in this context as the activity performed by the Agency to ensure that critical business functions will be available to customers, suppliers, regulators, and other entities that must have access to those functions. The Agency has a Continuity of Operations Plan and a designated Continuity of Operations (COOP) Manager. However, the Plan is not well known by many within the Agency.

Effectiveness of Control / Mitigation Activities:
There is a great deal of information regarding different types of business continuity planning documents, and detailed updating or review of the procedures is underway. There is a disaster recovery plan that is tested and audited on an annual basis. The Agency information technology and application system(s) audit for the fiscal year ending June 30, 2013 were tested as part of the financial statement audit and were determined to be effective.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (4.75)	Unlikely (3.25)	Good (2.75)	Moderate (18)	Low (68)
2013	Moderate (5.00)	Unlikely (3.80)	Good (3.00)	Moderate (22)	Low (76)

Planning and Execution is assessed as a low risk source, which is unchanged from the previous assessment. Assessed impact, likelihood and assurance have all increased slightly from previous year, which reflects the ongoing evolution of the Agency in response to changes in market conditions. Effective planning is vital to any organization, especially one that makes significant financial investments in various programmatic areas. The Agency has a Strategy Management Framework that includes a "family" of planning and reporting documents and processes. The "head of the family" is the 2013-2015 Strategic Plan, which was adopted by the Board in June 2012. The plan was developed based on robust research and analysis of housing and finance market data, and an extensive external community and internal staff engagement. It includes the Agency's vision, mission, priorities and strategies. The Plan was well-received by many audiences. Shortly after the Strategic Plan was adopted, staff developed the 2013 Affordable Housing Plan, the one year business plan that implements the Strategic Plan. The 2014 Affordable Housing Plan was adopted by the Board on September 26, 2013. This, too, involved extensive data gathering and analyses and staff input. The Affordable Housing Plan includes funding by program area and estimated number of households assisted and units produced, as well as other work plan highlights. Divisional work plans are based on the Affordable Housing Plan and then individual work plans are developed to support divisional work plans. All plans are aligned with the Strategic Plan. Each plan has one or more corresponding reporting documents containing a variety of performance measures - Results Management Report, Super Report, Annual Assessment and Report, Quarterly Division Reports, Individual Performance Appraisals.

Effectiveness of Control / Mitigation Activities:
The focus this year is on developing even better performance measures and individual work plans, especially around goal setting and learning objectives. For the past two years, 100% of the employees' appraisals were completed. The Agency has several staff skilled in planning and a divisional team responsible for overseeing all of the Agency's planning and reporting work. Planning is well supported by the Senior Leadership Team and is a highly visible part of the organization. Finally, the Deputy Commissioner is now representing the Agency on the State's Continuous Improvement Steering Committee which should provide access to new ideas and resources. No additional mitigation is necessary at this time.

Appendix A

Risk Impact

Assess each risk factor according to the criteria below. Do not grant credit for existing controls or mitigating strategies. Do not consider how often the impact may occur. Instead, rate as if the factor manifests itself without controls one or more times. Only one criteria for an impact level need apply to assess at that level.

9 – 10 Major

- Negative impact on Net Assets – over $250 million
- Catastrophic impact on financial statements (e.g., critical contractual ratios are no longer met)
- Liability threats challenge the going concern status of the Agency
- Long-term impairment of critical functions makes the Agency vulnerable to mission failure
- Non-compliance with Federal / State law, statue, or rule
- Agency's Strategic Plan cannot be achieved
- Agency's Affordable Housing Plan cannot be achieved
- Identified issues are serious variations from the organization's values (e.g., Fraud, Conflict of Interest)
- Process owner has not completed an evaluation of segregation of duties for employees' assigned tasks
- Process generates unusual transactions
- Activities are very complex. Employee training to perform activities is lengthy. Judgment is critical in performance of activities and is mostly principles based.

7 – 8 Serious

- Negative impact on Net Assets – $100 million to $250 million
- Regulatory penalties are required
- Serious liability or lawsuit potential
- Financial ratings drastically revised
- Serious Long-term Agency brand (reputation) impairment
- Significant negative impact on ability to achieve strategic plan
- Significant negative impact on ability to achieve Affordable Housing Plan
- Issues significantly contrary to organizational values
- Process owner has evaluated employees' assigned duties within the process and determined that there are existing concerns related to incompatible duties.
- Process generates estimation transactions.
- Activities are very complex. Employee training to perform activities is lengthy. Judgment required in decision-making is mostly rules based.

5 – 6 Moderate

- Negative impact on Net Assets – $50 to $100 million
- Impaired business functions cause customer service to significantly deteriorate
- Moderate Agency brand (reputation) issues

- Moderate liability (e.g., lawsuits) potential
- Business practices significantly inconsistent with industry standards
- Moderate negative impact on the Agency's strategic plan
- Moderate negative impact on the Agency's Affordable Housing Plan
- Identified issues are inconsistent with the organization's values
- An evaluation of segregation of duties for employees' assigned tasks has not be completed
- Process generates non-routine transactions.
- Moderate activity complexities; Moderate individual judgment; few aspects of operation covered by established practices. Employee training to perform activities is lengthy.

3 – 4 Minor

- Negative impact on Net Assets – $10 to $50 million
- Inconvenient impact on critical business functions
- Compliance issues should be easily resolved with only minor financial consequences
- Small and temporary impact to Agency brand (reputation)
- Strategic plan will not be impaired or impact will not require altering the plan
- Affordable Housing Plan will not be impaired or impact will not require altering the plan
- An evaluation of segregation of duties shows no issues and is sufficiently documented and verifiable
- Process generates routine transactions that do not relate to the company's primary business activities
- Activities are low complexity. Some individual judgment required.

1 – 2 Insignificant

- Negative impact on net income – less than $10 million
- Critical functions will not be impaired
- No liability or threats to Agency brand (reputation)
- A segregation of duties evaluation has determined that there are no existing concerns within the past 12 months. The evaluation is sufficiently documented and verifiable.
- Process generates routine transactions related to the company's primary business activities.
- Activities are relatively straight forward. Employee training for activity performance is very minimal.

Likelihood

Assess the likelihood that the impact of the risk factor occurs. Do not consider the mitigation effect of existing controls.

9 – 10 Major Highly Likely

At least 90% probability - Expected to occur in most circumstances
Within the past 12 months, the following conditions have existed within the process:

- Task errors not predictable, limits not established
- Major activity bottlenecks, impact on upstream or downstream functions
- Staff has little or no experience, skills, training, and certifications
- Major transactional changes (e.g., major volume spikes, contractual changes)

- Changes in key personnel or staff

7 - 8 Likely
At least 66% but less than 90% probability - Will probably occur in most circumstances
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors often in excess of approved limits
- Activity bottlenecks, impact on upstream or downstream functions
- Staff has insufficient skills, training, and certifications
- Significant transactional changes (e.g., major volume spikes, contractual changes)
- Changes in personnel or staff

5 - 6 About as likely as not
At least 33% but less than 66% probability - Might occur at some time
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors occasionally in excess of approved limits
- Shortages in staffing levels
- Thinly experienced and skilled staff
- Moderate transactional changes (e.g., volume, nature)
- Some changes in key personnel or staff

3 - 4 Unlikely
At least 10% but less than 33% probability - Could occur at some time
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors within approved limits
- Reasonable staffing levels;
- Adequately experienced and skilled staff
- Minimal transactional changes (e.g., volume, nature)
- Minimal changes in key personnel or staff

1 - 2 Rarely if ever
Less than 10% probability - May only occur in exceptional circumstances
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors within approved limits
- Appropriate staffing levels
- Highly experienced and skilled staff
- No change in volume and nature of transactions
- No change in key personnel or staff who perform or monitor controls

Assurance (Effectiveness of Mitigation Activities)

Assess the effectiveness of existing procedures, mitigating strategies and overall Agency-wide controls, regardless of which business area performs activities (i.e., activities do not have to be performed by areas or employees reporting to you). Mitigation or controls can be written policies and procedures, fraud risk assessments, control automation, control self-assessments, standard management reporting, etc. Assess controls that mitigate the selected risks based on criteria below.

Tip: You may conclude that you rely on activities performed by other business areas to mitigate risks in your business area. If this is the case, you may assess controls provided by other business areas as you understand them, or you may request other business areas to assess control assurance from their base of knowledge. Regardless of your approach, be sure to document your reasoning.

9 - 10 Ineffective

Control effectiveness is not driven by the organization, but is solely dependent on each individual's background and standards.

Within the past 12 months, the following indicators have existed within the process:

- Ineffective and fragmented controls
- Undocumented procedures, mitigating strategies, entity-wide controls
- Inappropriate or no guidance from "tone at the top" (control environment)
- General inability of key personnel or staff to design and execute effective, cohesive mitigating activities

Within the past 12 months, the following conditions have existed within the process:

- No written guidance for performing tasks
- Key controls that mitigate the risks are mostly manual
- No participation in a control self-assessment program

7 – 8 Poor

Organizational values and behavior expectations are not well defined or consistently understood beyond management.

Within the past 12 months, the following indicators have existed within the process:

- Controls are documented but not performed consistently
- Controls are only partially effective, and the area copes as best they can
- No documented accountability
- Clear evidence of ongoing internal conflicts in the area
- Ineffective or no internal monitoring of controls

Within the past 12 months, the following conditions have existed within the process:

- Some written task guidance in various forms(e.g., personal notes), but may not immediately be available to auditors due to inconsistent format and / or unapproved status
- Key controls that mitigate the risks are mostly manual and hybrid
- Limited participation in a control self-assessment program

5 – 6 Could be improved

Comprehensive policy statements on organizational values and behavior expectations are published to all internal and external stakeholders.

Within the past 12 months, the following indicators have existed within the process:

- Compliance with written policies and procedures at all levels is accepted as the norm

- Controls documented and generally performed, but are not sufficiently responsive to operational changes
- Internal monitoring exists but significant deficiencies in effectiveness were observed
- Some written procedures and standards exist, but may not be sufficiently clear or comprehensive
- Accountability is not enforced

Within the past 12 months, the following conditions have existed within the process:

- Written task guidance for important aspects; immediately available to auditors upon request
- Key controls that mitigate the risks are a combination of automated, hybrid and manual
- Full participation in a control self-assessment program

3 – 4 Good

Cultural norms ensure compliance with organizational values and policies at all levels. Employees believe that ’no one is above the law’ because Management's "tone at the top" demonstrates they embrace organizational values in their daily actions.

Within the past 12 months, the following indicators have existed within the process:

- Organizational values and policies require both short- , mid- and long-term benefit
- Formalized processes exist to ensure that organizational values and policies remain the norm
- Controls are effective, documented and followed on most occasions
- Clear ownership of control responsibility and role accountability
- Controls are responsive to operational changes
- Technically competent and experienced staff with some turnover
- No significant deficiencies observed in internal monitoring
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management (e.g., internal audit) in the past three years

Within the past 12 months, the following conditions have existed within the process:

- External audit has reviewed controls within the past 2 – 3 years with satisfactory results
- Key controls that mitigate the risks are primarily automated and hybrid
- Full participation in a control self-assessment program
- Written task guidance is comprehensive, including (i) how and when to perform tasks; (ii) what tasks are supposed to achieve; (iii) how to handle exceptions; (iv) how tasks affect the process; and (v) how tasks affect upstream and downstream processes

1 – 2 Effective

Board, management and employees alike demonstrate through their actions that behavior outside of organizational values and policies is unacceptable.

In the past 12 months, the following indicators have existed within the process:

- Accountability at all levels is culturally driven
- Embedded ability to take advantage of short-term opportunities while ensuring long-term viability due to continuous discipline and sound ethical decision-making skills at all levels
- Effective, documented controls are in place
- Technically competent and experienced staff with minimal turnover
- Highly effective management review takes place

- No deficiencies observed in control environment (e.g., procedure manual, controls well documented, clear standards and trending for control exceptions)
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management in the past two years

Within the past 12 months, the following conditions have existed within the process:

- External audit has reviewed controls within the past year with satisfactory results
- Key controls that mitigate the risks are primarily automated and hybrid
- Full participation in a control self-assessment program
- Written task guidance is comprehensive, including (i) how and when to perform tasks; (ii) what tasks are supposed to achieve; (iii) how to handle exceptions; (iv) how tasks affect the process; and (v) how tasks affect upstream and downstream processes

Appendix B

Risk Assessment Matrix

Section A: Inherent Risk Score Table

Risk Source Description: ______	**Likelihood** 1 - 2 Rarely if ever May occur only in exceptional circumstances	3 -4 Unlikely Could occur at some time	5 - 6 About as likely as not Might occur at some time	7 - 8 Likely Will probably occur in most circumstances	9 - 10 Major Highly Likely Expected to occur in most circumstances
Impact 9 - 10 Major Would stop achievement of goals and objectives	Moderate	High	High	Very High	Very High
7 - 8 Serious Would threaten goals and objectives; requires close management	Moderate	Moderate	High	High	Very High
5 - 6 Moderate Would necessitate adjustment to the overall function and require corrective action. May have a negative impact	Low	Moderate	High	High	High
3 - 4 Minor Would threaten an element of the function. May cause small delays or have a minor impact on quality	Low	Low	Moderate	Moderate	High
1 - 2 Insignificant Impact on function, or its objectives is negligible. Routine procedures would be sufficient to deal with the consequences	Low	Low	Moderate	Moderate	High

Section B: Assessed Assurance (Effectiveness of control / mitigation activities)

1 - 2 Effective	3 - 4 Good	5 -6 Could be improved	7 - 8 Poor	9 - 10 Ineffective

Section C: Residual Risk Score Table

Risk Level	Residual Index Score	Definition
Very High	Above 350	Would prevent achievement of objectives, cause unacceptable cost overruns or schedule delays and requires close Executive attention
High	201 to 350	Substantial delays to project schedule, significant impact on technical performance or cost, and requires close management attention
Moderate	101 to 200	Requires identification and control of all contributing factors by monitoring conditions, and reassessment of program / project milestones
Low	100 and below	Normal control and monitoring measures sufficient

Appendix C

Assessed impact is on the y axis, likelihood is the x axis. Each critical risk has a data point associated with its assessed impact and likelihood. Additionally, each critical risk data point is color coded to reflect the level of assessed assurance *(Figure 1)*.

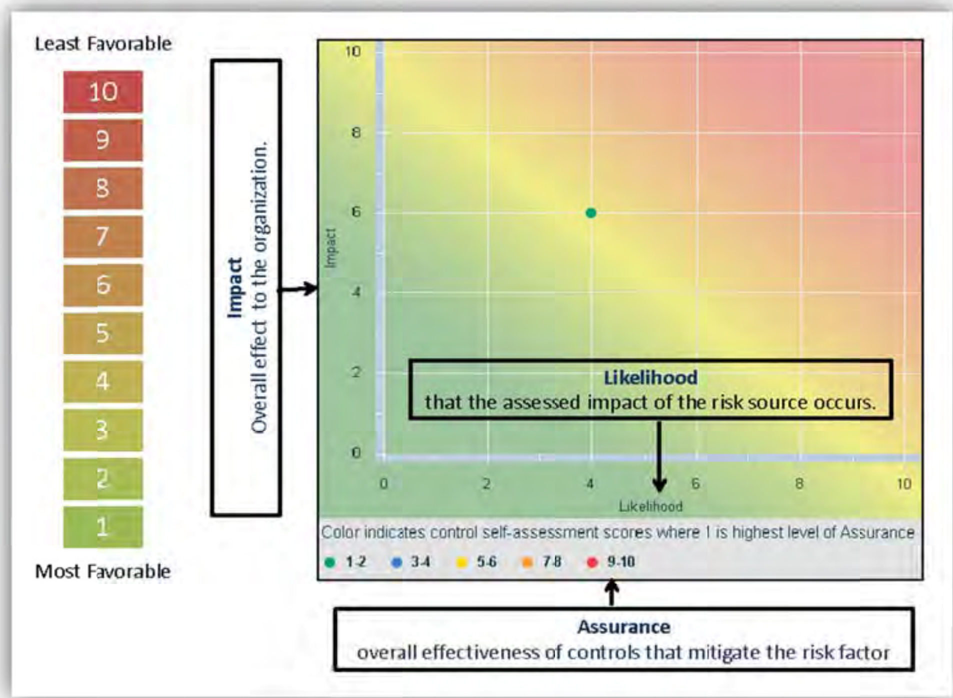


Figure 1

A general heat map overview example, with the risk source Compliance, is provided to demonstrate risk source placement within a grid and formulas for calculating inherent and residual indexes *(Figure 2)*.

Figure 2

Inherent Index is calculated by multiplying an individual Impact score by an individual Likelihood score to produce an individual Inherent Index score. All individual Inherent Index scores are averaged to produce an Inherent Index score for each Risk Source. Compliance was assessed 7 times and the average of the individual Inherent Index scores is 24, which is listed as the Average in the Inherent Index column of Table 1.

Table 1:

Risk Source - Compliance	Impact	Likelihood	Inherent Index	Assurance	Residual Index
Risk Profile - 1	4	3	12	3	36
Risk Profile - 2	6	5	30	4	120
Risk Profile - 3	6	7	42	6	252
Risk Profile - 4	6	6	36	6	216
Risk Profile - 5	5	3	15	4	60
Risk Profile - 6	5	4	20	4	80
Risk Profile - 7	4	4	16	4	64
Average	**5.14**	**4.57**	**24**	**4.33**	**118**

The Residual Index measures the risk that remains after controls, mitigation activities, are taken into account. Residual index is calculated by multiplying an individual Inherent Index score by an individual Assurance score to produce an individual Residual Index score. All individual Residual Index scores are averaged to produce a Residual Index score for each Risk Source. Compliance was assessed 7 times and the average of the individual Residual Index scores is 118, which is listed as the Average in the Residual Index column of Table 1.

Residual Index tiering has been incorporated into the Risk Assessment Matrix to better delineate risk levels.

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Minnesota Housing
Finance Agency

AGENDA ITEM: 9.A
MINNESOTA HOUSING BOARD MEETING
December 19, 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 25 instances of conflicts of interests, misused funds and fraudulent activity for the 36-month period beginning December 2010 and ending November 2013. A total of $215,744 was not recovered: ($138,201 in misused funds (unchanged from last quarter), and $77,543 in fraudulent activity (an increase of $61,337 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	**4**	**1**	**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**	**2**	**17**
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
None Yet		1	1
Motion for Default Judgment Scheduled		1	1
Grand Total	**22**	**3**	**25**

Key Trends:

- One new alleged misuse of funds case opened from September 2013 – November 2013
- One case closed from September 2013 – November 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)