AMORTIZING FIRST MORTGAGES

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

Program Overview

Funds may be used for the refinance, acquisition, rehabilitation or new construction/conversion of rental apartment buildings that house low- and moderate-income Minnesotans. FFCC is a deferred loan supplement available only in conjunction with LMIR.

Application Process

Applications accepted through the annual RFP process and throughout the year.

Lending Terms

Eligible Properties:

Must qualify under project selection criteria for multi-unit development mortgage loans found in the Multifamily Consolidated Request for Proposal Guide. Generally, properties with less than 24 housing units are not financially feasible.

Loan Purpose:

LMIR: First mortgage fixed-rate amortizing debt for multifamily rental housing affordable to low- and moderate-income households. Available for new construction of rental housing and/or to help stabilize existing properties.

FFCC: Deferred loans at low or no interest only in conjunction with LMIR first mortgage loans.

Funding Sources:

LMIR: Housing Investment Fund: Agency generated non-federally tainted resource targeting:

- New construction or acquisition/rehabilitation of family and workforce housing developments when combined with Housing Tax Credits.
- Acquisition/rehabilitation of existing housing, including developments currently federally assisted.
- Refinance of existing housing.

Federally Tax Exempt Bond Proceeds: Minnesota Housing may issue tax exempt bonds for the acquisition and rehabilitation of existing housing or for the new construction of rental housing when the owner will seek 4% housing tax credits.

Short-term LMIR Bridge loans may be available in conjunction with tax exempt bond proposals if needed for eligibility for tax credits.

FFCC: Funded through the Housing Affordability Fund; an agency generated non-federally tainted resource.

HUD Risk Share:

LMIR loans will be insured through the HUD's Risk Sharing Program (Risk Share). HUD's insured portion will be either 50% in the Level I program or up to 90% in the Level II program. The loan will typically be insured upon construction completion, therefore Davis Bacon Federal wage requirements do not apply.

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Loan Parameters:

Income Limits
- At a minimum, 40% of the units occupied by households whose income is 60% or less of AMI or 20% of the units occupied by households at 50% or less than AMI.
- 25% of the units may have unrestricted incomes.
- The balance of units for tenants with incomes equal to or less than 100% of AMI.
- Developments financed with multifamily residential bonds must maintain the income and rent limits as long as the mortgage is outstanding, or 15 years, whichever is longer.

Rent Levels
The rent levels must be marketable based on the incomes served, but at a minimum:
- 40% of units affordable to households at 60% of income; or 20% of units affordable to households at 50% of income
- The balance of units with rents at Minnesota Housing determined "market."

Refer to the LMIR and FFCC program guide for additional details.

Debt Coverage Ratio (DCR)
- Minimum DCR of 1.11-1.20 as determined by Minnesota Housing; and
- Must maintain a breakeven cash flow for a minimum of 15 years on a proforma basis.

Maximum Loan to Cost (LTC)/Loan to Value (LTV)
Level I HUD Risk Share - 50% insured
- LTC/LTV must not exceed 87%.

Level II HUD Risk Share – Over 50% insured
- In accordance with HUD Handbook 4590.01, paragraph 2-4C(2) and Mortgagee Letter 2010-21:
  - New construction/substantial rehabilitation, LTC shall not exceed 87%.
  - For existing affordable properties, LTC shall not exceed 85%.

Return on Equity: Maximum 15% based on actual developer equity. No distributions for nonprofit owned developments, unless the non-profit is the managing general partner in a tax credit development, in which case the maximum distribution is 15% of initial equity.

Term and Amortization: **LMIR**: Fully amortizing, fixed rate loans that may have a 30-year, 35-year, or 40-year term. A 30 or 35 year term may be considered for developments involving rehabilitation or refinance and a 40 year term may be considered for new construction.

FFCC: Co-terminus with the accompanying LMIR loan and will be due and payable upon prepayment or maturity of the LMIR loan. FFCC loans will be in second lien position behind the LMIR loan. Minnesota Housing may at its sole discretion require 20 percent of cash flow in excess of $50,000 to be repaid annually.

Borrower: Single asset entity

Recourse: All monetary obligations must be guaranteed, including operating cost shortfalls and debt service, until achievement of DCR of at least 1.11 for three consecutive months (based on actual collected revenue less underwritten effective gross expenses). Thereafter, all monetary obligations except principal and interest for the life of the loan.

Interest Rate:

LMIR: The interest rate will be fixed for the full term of the LMIR loan.

- LMIR loans funded by Housing Investment Fund: For loans selected through the RFP, rates will be set prior to selection and locked for one year. The interest rate on an open pipeline LMIR loan will be locked at the time of application for six months.
- LMIR loans funded by Bond Proceeds: Rates are based on market rates at the time of the closing of the bond issuance plus a spread based on the size of the loan.

FFCC: Loans are generally made with an interest rate of 0 percent.

Prepayment and Assumption:

10 year lockout; Prepayment in full any time after 10 years only with agency approval. Penalties or fees may apply depending on funding source.

Cash Out:

Generally not allowed

Repairs Qualifications:

Construction or rehabilitation to a standard that when properly maintained, remains decent, safe, and affordable for the duration of the financing compliance period. Refer to the Building Standards page for full design/construction information.

Third Party Reports:

Including but not limited to: appraisal, environmental, radon, market study, and physical needs assessment, as required.

Fees and Expenses:

LMIR:

- Application fee of $250
- Origination Fee of 2% on the first $5 million in financing and 1% on the amount above $5 million; minimum origination fee is $25,000
- Mortgage Insurance Premium (MIP), 0.125% for HUD Risk Share Level I or up to 0.25% for Level II. One year of MIP is escrowed at closing, then paid monthly.
- For tax-exempt bond funded loans:
  - A LMIR bridge loan/construction loan origination fee of 0.50 percent of the bond amount/bridge loan amount is required.
  - Bond Issuance Fees will be charged as part of the development budget as follows:
    - $100,000, plus
    - 1.0% of the par amount of the long-term bonds, and if applicable
    - 0.75% of the par amount of the short-term bonds

LMIR and FFCC:

- Construction oversight fee of the lessor of 0.25% of the construction contract or 1.0% of total Minnesota Housing loans

Escrows:

Operating deficit, tax and insurance escrows, replacement reserves and residual receipts, if any.

Questions

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