MINNESOTA HOUSING

Rental Rehabilitation Deferred Loan Program Underwriting Standards

Underwriting Factors	Description
Rent and Income	Rents to not exceed Rental Rehabilitation Deferred Loan (RRDL) limits per RRDL Program Interim Guide (greater of 80% AMI or rent affordable to local workforce as determined from DEED Wage Data), unless the units receive project-based Federal rental assistance. Rents will be reviewed during the underwriting process. Must be supported by current (versus proposed) income of the property. Rent Increases: After a thorough market review, and after receiving the appropriate approvals rent increases may be instituted where appropriate. Vacancy Factors: Will be underwritten at historic operations with a minimum 5% vacancy. Other Income: Minnesota Housing will evaluate other income (e.g. laundry, parking), which is documentable and consistent with past historic operating numbers.
Management and Operating Costs	Must be supported by: • Three years of actual operating data provided by the management company or owner. Copies of operating budgets or audited financial operating expense statements for at least three years must be provided as long as the Project has been in operation for at least five years. • Projected operating efficiencies to be gained from rehabilitation and building system improvements. • Circumstanced and/or significant changes to the Project's current expenses, such as increased utility costs, taxes, and/or insurance. • Property taxes may align with LIRC when applicable/feasible.
Credit Worthiness	The following will be reviewed to determine credit worthiness: • Current year audited or unaudited financial statements • Prior year of complete tax return for the sponsor/borrower • Credit report from national agency (individual/or corporate) • Personal financial statement • Schedule of income producing properties

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Cash Flow	Revenue and Expense Escalators: could range from 1.5% and 3% respectively depending on number of units with rental assistance. Financial Sustainability: Review of the past three years of actual operating data or audits for the development. Should demonstrate breakeven or positive cash flow for 15 years.
Terms of Existing Financing	Existing financing will be reviewed during the underwriting process to determine whether there is a need for loan modification, term extension, or re-amortization.
Debt Coverage Ratio	The Debt Coverage Ratio in year 1 should be 1.11 and, at a minimum, 1.0 in year 15.
Fee Limits	Must be reasonable for project and follow Minnesota Housing's Architect's Guide and Contractor's Guide. Developer Fee: Not a permitted use of RRDL funds but is allowed if there are sufficient *other sources* to cover the expense. Project Management Fee: Up to 3% of the total Rental Rehab Deferred Loan amount may be utilized to assist in the scope of work development, loan processing, and construction oversite phases of the project.
Replacement Reserves	Existing reserve balances and contributions to reserves will be reviewed during the underwriting process to determine if any changes are required.
Acquisition	Minnesota Housing reserves the option to review property transfers and/or partnership substitutions on a case by case basis when a sponsor is applying for RRDL funds.
Appraisal	Minnesota Housing reserves the right to request/require an appraisal when underwriting scenarios deem it necessary.
Repayment Terms	The RRDL loan will typically be structured as a Deferred Loan with a 20-year term at 0% interest and payment of principal due on the date of loan maturity. The RRDL may be structured as a cash flow note or other payment structure based on the development's ability to support additional debt service or at the discretion of the agency.
Sales Tax Rebate	All developments eligible for a Sales Tax Rebate are encouraged to participate. The Sales Tax Rebate must be bridged. The Sales Tax Rebate will be used first to pay back the source used to bridge the rebate and any excess funds may be used to pay down outstanding debt or as a contribution to property reserves.

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Energy Rebates	All projects eligible for Energy Rebates are encouraged to participate. The Energy Rebate must be bridged. The Energy Rebate will be used first to pay back the source used to bridge the rebate and any excess funds may be used to pay down outstanding debt or as a contribution to property reserves.
Relocation Plans	If a project involves either temporary relocation or permanent displacement of existing tenants, the applicant must submit a Relocation Plan that addresses temporary relocation, in-place displacement, or permanent displacement as applicable. Minnesota Housing considers in-place displacement to be when a tenant is moved from a unit for a short period of time resulting in a tenant's loss of use of their unit for a portion of the day.
Closing in Balance	All sources of funds must be available at closing or bridge funding must be provided to pay development costs through construction completion.
Cost Savings at the End of Construction	Cost savings remaining at the end of the construction or rehabilitation, if any, may be used at Minnesota Housing's discretion to reduce Minnesota Housing funding, or put to another appropriate use for the benefit of the development, as approved by Minnesota Housing.
Construction Loans and End Loans	The RRDL can be structured as a Construction Loan or an End Loan.