



Multifamily Underwriting Standards

Last Updated: April 2025



The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, creed, national origin, sex, religion, marital status, status with regard to public assistance, disability, familial status, gender identity, or sexual orientation in the provision of services.

An equal opportunity employer.

This information will be made available in alternative format upon request.

April 2025

Contents

- Introduction 1
- Chapter 1 – Types of Loans and Fees..... 2
 - 1.01 Amortizing Loans 2
 - 1.02 Deferred Loans..... 3
 - 1.03 Cash Flow Note Provisions..... 3
 - 1.04 Bridge Loans..... 4
 - 1.05 Balloon Mortgages..... 6
 - 1.06 Tax Increment Financing Loans..... 6
 - 1.07 Loan Related Fees 7
- Chapter 2 – Credit Review 8
 - 2.01 Owner..... 8
 - 2.02 Borrower 8
 - 2.03 Sponsor 9
 - 2.04 Guarantor..... 9
 - 2.05 Developer..... 10
 - 2.06 Interim Replacement General Partner or Managing Member 10
- Chapter 3 – Income..... 11
 - 3.01 Rent Revenue..... 11
 - 3.02 Supportive Housing Standards – High Priority Homeless, Other Homeless Households or People with Disabilities..... 11
 - 3.03 Other Income 13
 - 3.04 Commercial Space..... 13
 - 3.05 Vacancy Factor 14
 - 3.06 Average Income Test Election..... 14
 - 3.07 Interim Income..... 15

Chapter 4 – Expenses.....	16
4.01 Management and Operating Expenses.....	16
4.02 Unique Operating Expenses for Supportive Housing	17
4.03 Property Taxes	18
4.04 Asset Management Fee for Owners	18
Chapter 5 – Proforma Assumptions.....	20
5.01 Income and Expense Inflation Factors.....	20
5.02 Debt Coverage Ratio	20
5.03 Loan-To-Value	21
Chapter 6 – Fee Limits	22
6.01 General Contractor Fee.....	22
6.02 Architect Fee	22
6.03 Developer Fee	22
6.04 Construction Contingency.....	23
Chapter 7 – Reserves and Escrows	25
7.01 Replacement Reserves.....	25
7.02 Initial Deposit to Replacement Reserves	25
7.03 All Reserves	25
7.04 Operating Deficit Escrow	26
7.05 Tax and Insurance Escrows	27
Chapter 8 – Other Requirements.....	28
8.01 Recourse and Guarantees.....	28
8.02 Tribal Nation Guaranty	29
8.03 Return on Equity	29
8.04 Sales Tax Rebate	30
8.05 Energy Rebates	30

8.06	Renewable Energy Certificates	30
8.07	Community Service Facilities and Housing-Related Spaces	31
Chapter 9 – Acquisition.....		32
9.01	Purchase Price.....	32
9.02	Acquisition-Related Costs	32
Chapter 10 – Appraisal Requirements.....		34
10.01	Appraisal to Support Acquisition Costs.....	34
10.02	Prior to Closing – Low and Moderate Income Rental Amortizing Loans.....	35
10.03	Prior to Closing – Deferred Loans	35
10.04	Appraisal Expiration Period.....	36
10.05	4% Housing Tax Credit – Issuance of a Preliminary Determination Letter.....	36
Chapter 11 – Relocation and Involuntary Displacement.....		38
Chapter 12 – Closing.....		39
12.01	Closing in Balance	39
12.02	Minimum Housing Tax Credit Equity Pay-In at Closing	39
12.03	Cost Savings at the End of Construction.....	39
Appendix A – Terms and Definitions		41
Appendix B – Legal Addendum		49
1.01	Conflict and Control	49
1.02	Fraud	49
1.03	Misuse of Funds	49
1.04	Conflict of Interest	49
1.05	Assistance to Employees and Affiliated Parties.....	52
1.06	Suspension	53
1.07	Disclosure and Reporting.....	53
1.08	Electronic Signatures	53

1.09	Fair Housing Policy	54
1.10	Minnesota Government Data Practices.....	55
1.11	Prevailing Wage	55

Introduction

The Minnesota Housing Finance Agency (Minnesota Housing) Multifamily Underwriting Standards are current as of the date on the cover page of this document. This guide reflects Minnesota Housing's general approach to underwriting, but they are not meant to be comprehensive, nor are they meant to address every possible situation. The guidance in this document is not intended to supersede any specific program requirements, nor any federal, state, or local laws. If multiple requirements or restrictions apply to a development, generally the most restrictive will control. Final terms and requirements will be represented in the loan documents. If there is a question as to how a standard will apply to a particular development, it is best to consult Minnesota Housing early in the development process. At its sole discretion, Minnesota Housing will update this guide as appropriate.

Except as otherwise indicated herein, this guide will be relied upon by Minnesota Housing for underwriting and sizing of funding awards for:

- Low and Moderate Income Rental (LMIR) Amortizing Loans;
- Deferred Loans listed below; and,
- Housing Tax Credits (HTC)—both those allocated in the competitive (9%) rounds as well as those awarded in conjunction with tax-exempt bonds (4%).

Tables have been added in applicable sections throughout the document to clearly indicate which type of funding (HTC; LMIR Amortizing Loan; Deferred Loan) is subject to the applicable provision.

Any waiver of, or any change to these standards, will be determined by Minnesota Housing at its sole discretion.

The following Deferred Loan programs utilize this guide:

- Asset Management Loans
- Economic Development and Housing Challenge (EDHC)
- Emergency Rental Assistance 2 (ERA2)
- Flexible Financing for Capital Costs (FFCC)
- HOME Investment Partnerships (HOME)
- Housing Infrastructure Appropriations (HIA)
- Housing Infrastructure Bonds (HIB)
- National Housing Trust Fund (NHTF)
- Preservation Affordable Rental Investment Fund (PARIF)

Chapter 1 – Types of Loans and Fees

1.01 Amortizing Loans

Table 1: Amortizing Loans Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	

Low and Moderate Income Rental

Minnesota Housing offers fully-amortizing first mortgage loans with fixed interest rates and terms up to 40 years under the Low and Moderate Income Rental (LMIR) Program. In some instances, LMIR Amortizing Loans, under the HUD Risk-Sharing Program may be underwritten with a 17-year term and 30-40-year amortization. All LMIR Amortizing Loans must be in first lien position.

HUD Risk-Sharing Mortgage Insurance is typically required for LMIR Amortizing Loans. Minnesota Housing generally insures at Level I (HUD insures 50% of the loan). If Minnesota Housing determines that HUD Level II (up to 90%) insurance is appropriate, more stringent underwriting requirements apply.

Refinance Loans

LMIR Amortizing Loans may be offered to refinance existing first mortgages. Refinance loans do not involve a construction period and the cost of rehabilitation may be funded into escrows which must generally be disbursed within 12 months. To be eligible for this structure:

- Adequate upfront and ongoing reserves are budgeted to fund the capital needs identified in a Property Needs Assessment/Capital Needs Assessment and approved by a Minnesota Housing architect, and
- The cost of repairs must generally not exceed \$40,500/unit.

Existing Guarantors are expected to remain in place following the refinance.

Streamlined Refinance

Existing LMIR Amortizing Loans with HUD Risk-Sharing Mortgage Insurance may be refinanced under the Streamlined Refinance loan product. This streamlined process allows faster processing time and has fewer due diligence requirements.

Refer to the [LMIR/FFCC Guide](#) for more information.

1.02 Deferred Loans

Table 2: Deferred Loans Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
		X

Deferred Loans are generally non-amortizing loans structured with 30-year terms at 0-1% interest. Payment of principal and accrued interest is due on the date of loan maturity. Longer term maturities may be considered when needed to accommodate other funding sources.

Minnesota Housing Deferred Loan debt will only be used for and based upon the financing gap on affordable (rent restricted) units and must be in a superior lien position compared to a loan from a general partner or Sponsor.

1.03 Cash Flow Note Provisions

Table 3: Cash Flow Note Provisions Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
		X

Minnesota Housing's Deferred Loans may require an annual principal payment based on year-end Eligible Cash per the calculation below or a fixed annual payment based on projected cash flow as determined by Minnesota Housing.

For newly funded developments, including those receiving HTCs, the annual payment is equal to 20% of the amount by which eligible cash exceeds \$50,000 per year. Minnesota Housing will consider these cash flow provisions when considering requests for assumption, resubordination or other servicing requests of existing Deferred Loans.

Annual Cash Flow Payment Calculation

- Surplus Cash is defined in [HUD Form 92466M Regulatory Agreement for Multifamily Projects, section 13](#).
- Surplus Cash is calculated using [HUD Form 93486 Computation of Surplus Cash, Distributions and Residual Receipts](#), when there is a HUD first mortgage, or it is calculated using Minnesota Housing's [Computation of Surplus Cash Form](#).

Eligible cash is:

- Surplus Cash, plus:
 - Any dividends or distributions made during the fiscal year that were not identified as available for distribution at the end of the prior fiscal year.

- Any form of payment made to the general partner (company management fee, incentive management fee, etc.) during the fiscal year from current fiscal Surplus Cash and excluding fees paid from prior Surplus Cash allowable distributions.
- Less any outstanding:
 - Credit adjusters
 - Limited partner asset management fees
 - Operating reserve account replenishment
 - First mortgage required debt service reserve establishment or replenishment
 - Approved general or limited partner loans or advances
 - Deferred Developer Fees, including interest not exceeding the applicable federal rate

Seller loans, whether from related- or third-parties, will be reviewed for repayment priority on a case by case basis.

Minnesota Housing will determine, at its sole discretion, what items in the proposed cash flow distribution are allowable in the calculation of eligible cash. Items intended to provide additional funds to the general partner or that substantially divide out all remaining cash flow from operations, including but not limited to above market rate partner loans, general partner fees such as partnership management or incentive fees, etc., are intentionally excluded.

Borrower’s submission, on an annual basis for each fiscal year, will include:

- Audited financial statements, including a schedule of distributions
- [HUD Form 93486 Computation of Surplus Cash, Distributions and Residual Receipts](#) or Minnesota Housing’s [Computation of Surplus Cash Form](#)

Developments with more than 75% Supportive Housing or HPH units are exempt from these Cash Flow Provisions.

Total payments due must never exceed 75% of available Surplus Cash.

1.04 Bridge Loans

Table 4: Bridge Loans Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

Bridge Loans are commonly required to bridge HTC pay-ins or other funds not available during construction. These loans make sure sufficient funds will be available to fund the development costs in a timely manner through completion of construction (“Closing in Balance”). Refer to Chapter 12, section 12.01 of this document and minimum up front equity requirements.

The following requirements apply to Bridge Loans:

- All Minnesota Housing Bridge Loans must be in first mortgage lien position.
- Minnesota Housing’s Bridge Loan will generally be sized to not exceed 70% of the total anticipated equity pay-in as described in the Limited Partnership Agreement or Operating Agreement as applicable.

Bridge Loans Funded with Tax-Exempt Volume-Limited Bond Proceeds

If a Bridge Loan is funded with the proceeds of Minnesota Housing tax-exempt volume limited bond proceeds structured to meet the requirements to qualify for 4% HTC:

- An assignment of the general partner’s interest in the Limited Partnership (LP) is required.
- The Bridge Loan must be fully guaranteed by one or more individuals or entities approved by Minnesota Housing.
- Other collateral or security may be approved, or required, at Minnesota Housing’s sole discretion.
- The Bridge Loan, or the portion funded with tax exempt bonds, may be further limited at Minnesota Housing’s sole discretion.

Third-Party Bridge Loans and Minnesota Housing LMIR Amortizing or Bridge Loans

Bridge Loans provided by a third-party must be in a subordinate mortgage lien position to any co-existing Minnesota Housing LMIR Amortizing Loan or Minnesota Housing Bridge Loan. Alternative security for third-party Bridge Loans, including assignment of HTC equity, must be discussed prior to, and may require, Minnesota Housing approval.

Third-Party Bridge Loans and Minnesota Housing Deferred Loans

Bridge Loans provided by a third-party may be in a senior mortgage lien position to a Minnesota Housing Deferred Loan. Lien position and alternative security for third party Bridge Loans, including assignment of HTC equity should be discussed with Minnesota Housing prior to final Mortgage Credit Committee approval.

Third-Party Bridge Loans with Minnesota Housing LMIR Amortizing Loan End Loan

For third-party Bridge Loans requiring first mortgage lien priority or otherwise in conflict with Minnesota Housing’s loan requirements, Minnesota Housing may provide a commitment for a future LMIR Amortizing Loan that will close after completion of construction (“End Loan”). It is a condition of the Minnesota Housing closing that the third-party Bridge Loan be fully paid-off and the mortgage lien be released at or prior to closing of the LMIR Amortizing Loan. Particular attention should be paid to the timing of the equity pay-in structure to make sure compliance with the LMIR End Loan Commitment and HUD Risk-Sharing Firm Commitment expirations, if any.

1.05 Balloon Mortgages

Table 5: Balloon Mortgages Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

To achieve long-term viability in developments where Minnesota Housing has invested funding or HTCs, Minnesota Housing strongly encourages long-term, fully-amortizing, first mortgages; however, Minnesota Housing will consider proposals with balloon mortgages, subject to mitigating factors (for example: overall development sources and uses, projected loan-to-value at refinancing, and other risk factors) at the sole discretion of Minnesota Housing. As allowed under the HUD Risk-Sharing program, LMIR Amortizing Loans may be underwritten with a 17-year term and 30-40-year amortization at Minnesota Housing's sole discretion.

1.06 Tax Increment Financing Loans

Table 6: Tax Increment Financing Loans Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

When structured as a recurring payment over time (also known as pay-as-you-go), the Tax Increment Financing (TIF) stream is frequently incorporated into an amortizing loan to fund the development budget. Minnesota Housing will use a 1.0 Debt Coverage Ratio (DCR) for the TIF portion of the amortizing loan for the stated term of the TIF increment.

Note that when a TIF income stream is included in the Minnesota Housing amortizing loan, the debt service includes a fixed monthly principal amount based on the TIF projections. At the end of the projected TIF period, the debt service will be reduced to eliminate the TIF portion. Often actual TIF increment proceeds are paid to the owner either faster or slower than projected however, the debt service on Minnesota Housing's loan does not adjust based on actual TIF income. Because the actual TIF proceeds received may be higher or lower, the owner is responsible for managing all TIF proceeds to ensure the ability to meet the debt service requirements under the amortizing loan documents.

When needed to support break-even operations on a proforma basis, the TIF increment will not be required to be capitalized.

The annual TIF stream must be reflected in the Multifamily Workbook (Workbook). Evidence of the terms must be provided for Minnesota Housing to size its funding.

1.07 Loan Related Fees

Table 7: Loan Related Fees Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Please review the applicable fees in the [Multifamily Loans Program and Housing Tax Credit Fee Schedule](#), which includes application, origination, issuance, appraisal and closing and construction oversight fees as applicable.

Chapter 2 – Credit Review

Table 8: Credit Review Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The individuals and entities who exercise operational and financial control over a development must have a positive credit history demonstrating that they will honor their legal, financial, and contractual obligations. Minnesota Housing’s credit review will analyze the appropriate entities as applicable. Qualification forms for the Sponsor, Guarantor, and Developer, if applicable, along with all required attachments, must be submitted as part of the initial application for funding and/or HTC.

Minnesota Housing conducts credit reviews at a minimum at the following times:

- During the application and selection process
- Prior to final Mortgage Credit Committee approval for loan closings and/or loan commitments
- As Minnesota Housing deems necessary throughout the transaction

2.01 Owner

Table 9: Owner Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

An Owner is the entity or person who holds title to the real property upon which the development loan is placed.

The Owner is responsible for all the costs incurred as a result of applying for or securing a loan or HTCs from Minnesota Housing, whether or not the development is funded. These costs include, but are not limited to, the appraisal, environmental reviews, market study, title insurance, closing and legal fees, and publication fees.

Applying, receiving technical assistance, or receiving a selection letter does not create any guarantee from Minnesota Housing that a development will close and these costs will be reimbursed.

2.02 Borrower

Table 10: Borrower Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

A Borrower is an entity who has received an amortizing first mortgage loan or Deferred Loan from Minnesota Housing.

In addition, Minnesota Housing’s LMIR Amortizing Loans and Deferred Loan programs require that Borrowers be Eligible Mortgagors as defined in [Minnesota Statutes, section 462A.03, subdivision 13](#). For the purposes of this guide, there are two applicable entity types outlined in the statute:

- A nonprofit or cooperative housing corporation, or;
- A limited profit entity needing to adhere to the following requirements:
 - The annual distribution must not exceed 15% of the initial capital contribution (or, absent an initial capital contribution, 1.5% of Total Mortgageable Cost [TMC] less Total Developer Fee)¹
- Or such other recipient as allowed under the specific program requirements.

2.03 Sponsor

Table 11: Sponsor Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

A Sponsor is an individual, legal entity or nonprofit board that exercises control, financial responsibility and decision-making authority over the development and holds the strongest financial position in the project’s Organization Structure Chart.

The Sponsor must submit [Form 203B Qualifications of Sponsor and/or Guarantor](#), found on Minnesota Housing’s [Development Team Qualification Forms](#) webpage, along with the information required therein as part of the initial application for funding or HTCs. Sponsor(s) must collectively demonstrate acceptable multifamily housing experience and financial capacity to guarantee performance, if applicable. Financial capacity may be supported by additional Guarantor(s) as described in 2.04 below.

2.04 Guarantor

Table 12: Guarantor Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

A Guarantor is the entity or individual who signs a Guaranty. In many cases the Sponsor is the Guarantor, and this subchapter provides guidance for when additional parties are proposed.

¹ See also Chapter 8, section 8.04 of this document.

Minnesota Housing will conduct its capacity review of the Sponsor and proposed Guarantor(s) identified on the Development Team tab of the Workbook, and Guarantor’s must submit [Qualifications of Sponsor and/or Guarantor](#), found on Minnesota Housing’s [Development Team Qualification Forms](#) webpage, along with the required attachments. Changes in proposed Guarantors at any time from application to closing require Minnesota Housing’s review and written consent. Minnesota Housing reserves the right to require additional Guarantor(s) to enhance the financial capacity of the proposed Guarantor(s) to demonstrate acceptable financial capacity to guarantee performance. Refer to Chapter 8, section 8.02 of this document for Guarantee requirements.

2.05 Developer

Table 13: Developer Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The Developer is generally responsible for the coordination of, financing, building and initial leasing of the development. The developer is typically a separate legal entity from the Borrower or and party to a Development Services Agreement or contract with the Owner. In many cases, the Developer is the same entity as the Sponsor.

Developers must demonstrate acceptable multifamily housing experience and capacity to guarantee performance of their duties as described in the Development Services Agreement. The Developer must submit [Form 203A Qualifications of Developer](#), found on Minnesota Housing’s [Development Team Qualification Forms](#) webpage, and all required attachments as part of the initial application for funding or HTC’s.

Minnesota Housing reserves the right to approve the replacement of the Developer after a development is selected.

2.06 Interim Replacement General Partner or Managing Member

Table 14: Interim Replacement General Partner or Managing Member Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

Limited partners or investor members seeking the future ability to remove and replace the general partner or managing member of the Borrower, for cause, with an affiliated entity on an interim basis (not to exceed 90 days), must request Minnesota Housing approval prior to loan closing.

Chapter 3 – Income

3.01 Rent Revenue

Table 15: Rent Revenue Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Rents shown in the Workbook and year one of the cash flow will be the rents that will be in effect when the development is placed in service. Existing operating developments will be underwritten at current rents unless there is sufficient evidence that a rent increase for the development is feasible in the local market.

Section 8 Project-Based or Rural Development Rental Assistance

For developments with long-term assistance under the Section 8 Project-Based Rental Assistance (Section 8) Program, Minnesota Housing may underwrite and size its funding based upon U.S. Housing and Urban Development (HUD)-approved rents under Housing Assistance Payments (HAP) contract rents, including approved but pending Mark-Up-To-Market (MUTM) and HUD-approved exception rents. In the case of developments pursuing renewal options that allow for staged-in, HUD-approved, “after rehab” rents, Minnesota Housing may allow the higher rent levels to be incorporated into the underwriting but may underwrite a transition reserve into the development budget. For developments with USDA Rural Development (RD) Rental Assistance, Minnesota will underwrite to the USDA RD Conventional Rents for Comparable Units (CRCU) approved rents.

Tribal Rental Assistance

For Rental Assistance proposed by a Tribal government, documentation must include a Tribal council resolution committing to provide the Rental Assistance in the amount and for the term proposed as well as the source of the funding.

3.02 Supportive Housing Standards – High Priority Homeless, Other Homeless Households or People with Disabilities

Table 16: Supportive Housing Standards Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Developments that have units set aside and rented to households who are High Priority Homeless (HPH) or People with Disabilities (PWD) or meet the HIB Other Homeless Household definition are considered Supportive Housing units.

Housing Support

Minnesota Housing will utilize the current Housing Support Room and Board rate in effect at the time of underwriting and loan sizing, subject to the conditions below. The Room and Board Rate changes annually; refer to the [Housing Support Funding Commitment Letter](#) for the current rate.

At the time of application, Supportive Housing units with Housing Support, shall be underwritten at the following levels:

- The gross rent should be set at \$200 less than the total Housing Support Room and Board Rate to allow \$200 to pay for other housing related expenses to meet the requirements of the Housing Support Room and Board standards, and;
- The gross rent for 15% of Housing Support units shall be set at the lower of the rent limit on the unit or \$734 to allow for tenants to transition from Housing Support to Minnesota Supplemental Aid (MSA) Housing Assistance.

The Housing Support rent levels may be adjusted during the feasibility review by Minnesota Housing and will be determined post-selection in collaboration with the applicant and the Housing Support provider dependent on available resources and financial feasibility.

There may be instances where the gross rents on 85% of the Housing Support units could be set higher or lower than the recommended levels, as long as operating income is adequate, for instance:

- Gross rents may be higher:
 - For larger units with more than one bedroom, if the Housing Support administrator (service provider) has enough remaining funds to pay for the other room and board requirements.
- Gross rents may be lower:
 - For Primarily Supportive Housing developments, where the provider may need to use a portion of Housing Support to cover front desk costs. Alternatively, front desk costs could be expensed on the unique operating expense line item.
 - If the Housing Support Provider needs more than \$200 per unit to cover their other costs.

Supportive Housing Rent Levels for Units without a Rent Subsidy

Table 17: Supportive Housing Rent Levels for Units without a Rent Subsidy Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

For HPH, Other Homeless Households or PWD units that are not anticipated to have any form of Rental Assistance or subsidy, rents shall be set at affordable levels for the population. The gross rent (contract

rent + tenant-paid utilities) should be underwritten at the following levels unless otherwise approved by Minnesota Housing:

Table 18: Monthly Gross Rent by Unit Size and Household Type

Unit Size and Household Type	Monthly Gross Rent Per Unit
SRO, efficiency and 1 bedroom/Singles	\$100
2 bedroom or larger/Families with Children	\$300

Upon occupancy, for units set aside for HPH, Other Homeless Households or PWD in properties without project-based Rental Assistance for such units, tenant rents, including an allowance for tenant-paid utilities, cannot exceed the greater of 30% of the household’s monthly income or the most current Supportive Housing standard rental rate for the unit size, as published annually with the rent and income limits by Minnesota Housing.

For information on rent increases for Supportive Housing units with no rent subsidies and other Supportive Housing information, refer to the [Supportive Housing Information and Resources](#) publication on Minnesota Housing’s [Supportive Housing](#) webpage.

3.03 Other Income

Table 19: Other Income Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Minnesota Housing will evaluate other income (for example: fees, laundry, parking), and it should be reasonable and comparable to other developments within the region. The amounts will be evaluated by Minnesota Housing’s staff.

3.04 Commercial Space

Table 20: Commercial Space Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

Income from commercial space will be underwritten on an exception basis only. Five years of operating history will be required, and Minnesota Housing will, at its sole discretion, determine an appropriate vacancy rate.

Note that Minnesota Housing funding including tax credit equity and tax-exempt bonds cannot provide any capital to support commercial space.

3.05 Vacancy Factor

Table 21: Vacancy Factor Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Properties will generally be underwritten at a 7% vacancy rate. A higher vacancy rate of 10% may be used if the property is primarily Permanent Supportive Housing. A lower vacancy rate of 5% may be used if the property has any of the following:

- Workforce housing developments in strong markets, as identified by the market study and/or Minnesota Housing portfolio data
- Properties assisted by the Section 8 Program or USDA RD Rental Assistance, if justified by historic operations
- Any existing properties where a lower vacancy is supported by historic performance

The above percentages are standards, and if warranted by historic performance or market conditions, a different vacancy rate may be used. Minnesota Housing will, at its sole discretion, determine the appropriate vacancy rate.

3.06 Average Income Test Election

Table 22: Average Income Test Election Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The Consolidated Appropriations Act of 2018 established Average Income Test (AIT) as a third minimum set-aside election for new HTC developments.

When coupled with any Minnesota Housing Deferred Loans, developments electing the AIT set-aside must still meet all rent and income as well as other program requirements.

LMIR Amortizing Loans that are coupled with HTC utilizing AIT election must still meet the minimum rent and income requirements of the LMIR Amortizing Loan program statutes, and if applicable, all bond requirements. At Minnesota Housing’s sole discretion, a LMIR Amortizing Loan may include a small portion of units underwritten at rents higher than 60% MTSP limits if proposed rents are at least 10% below achievable market rate rents. Proposed rents higher than 60% MTSP limits must also be approved in writing by the tax credit syndicator.

3.07 Interim Income

Table 23: Interim Income Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Interim Income will be recognized as a source in the Workbook for any operating property when no debt service payments are being made from operations during the construction period. Minnesota Housing staff will consider the historic operating income, the proposed scope of work and the proposed Relocation Plan to determine an appropriate amount to include. Generally, up to 75% of anticipated net operating income may be considered. To meet Closing in Balance requirements (refer to Chapter 12, section 12.01 of this document), Interim Income will need to be bridged during the construction period.

Chapter 4 – Expenses

4.01 Management and Operating Expenses

Table 24: Management and Operating Expenses Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The Developer will submit the Management and Operating (M&O) Budget based on anticipated stabilized operating expenses occurring after the development is placed in service or upon full occupancy. For operating properties, the historic M&O Budget will be used with appropriate adjustments for projected economies attributable to the proposed rehabilitation and for changes associated with new program requirements.

M&O Budget (total operating expenses not including real estate taxes and reserves) will be evaluated and analyzed in relationship to comparable properties in Minnesota Housing’s portfolio, expense comparables in the appraisal, and other information deemed relevant and appropriate.

M&O Budget numbers are analyzed on a per room basis. The rental rooms per unit are calculated as follows:

Table 25: Number of Rental Rooms Per Unit by Unit Type

Unit Type	Rental Rooms Per Unit
Bed/Shelter	2
EFF/SRO	2.5
1 BR	3.5
2 BR	4.5
3 BR	6
4 BR	7
5 BR	8.5

The proposed M&O Budget should be based on the Developer/management company’s current portfolio and supported by:

- Actual audited operating data for at least three years of stabilized operations, for existing developments
- Actual audited operating data provided by the Developer/management company, for similar developments
- Circumstances and/or significant changes to the economics of the development’s current marketplace, such as increased property insurance or increased or decreased utility costs.

- Owner provided data or written explanation supporting projected operating expense savings resulting from the rehabilitation of the development, if applicable
- Operating trends of the Developer/management company

In sizing its funding awards, Minnesota Housing reserves the right to adjust the proposed M&O Budget based upon the information supplied, specified development type, circumstances and/or significant changes to the economics of the development’s current marketplace. Minnesota Housing will place primary emphasis on its database to compare projected M&O Budgets with audit data from comparable property types.

4.02 Unique Operating Expenses for Supportive Housing

Table 26: Unique Operating Expenses for Supportive Housing Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The Unique Operating Expense line in the Income & Expense tab of the Workbook may be used to include expenses to provide basic tenant service coordination for Supportive Housing or senior housing tenants, or for the costs to operate a front desk for Supportive Housing.

Recommended Standard for Developments Considered Partially Supportive Housing

To help ensure basic tenant service coordination can be provided and not dependent on other funding sources, applicants must include expenses for basic service coordination in the operating budget on the Unique Operating Expenses line. The expense should be calculated per Supportive Housing (HPH, PWD and Other Homeless Households) unit and based on the anticipated types of other funding for services as follows:

- \$100/unit/month if the development will likely have the Housing Support Long-Term Homelessness (LTH) Service Rate or another reliable funding source (for example, Medicaid billable services, secured grant funding)
- \$400/unit/month if the development is not likely to have a reliable service funding source

The unique operating costs may be adjusted during the feasibility review by Minnesota Housing and will be determined post-selection in collaboration with the applicant dependent on unit types and resources to be used for rent assistance and available resources for services.

4.03 Property Taxes

Table 27: Property Taxes Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

All properties that are eligible for Low-Income Rental Classification (LIRC) or Payment in Lieu of Taxes (PILOT) must participate in and will be underwritten assuming participation in the applicable programs. Refer to Minnesota Housing’s [Low-Income Rental Classification \(LIRC\)](#) webpage for more information.

4.04 Asset Management Fee for Owners

Table 28: Asset Management Fee Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

To recognize the ongoing administrative, compliance, and financial oversight responsibilities borne by ownership entities, particularly in tax credit-financed affordable rental housing, this policy permits an annual asset management fee for owners as part of allowable operating expenses. The purpose of the annual asset management fee to the owner is to support the long term stewardship, stability, preservation and management oversight of affordable rental housing properties.

An annual asset management fee of the greater of \$5,000 per property or \$150 per unit up to a maximum of \$15,000 per property per year. Alternative fees may be considered at the sole discretion of Minnesota Housing with documentation supporting an alternative fee.

- The fee may be increased annually at not greater than 3%.
- The fee must be:
 - Paid to the managing general partner or affiliated entity responsible for asset oversight (not duplicative of property management duties);
 - Subordinated to debt service, reserve contributions, and essential operating expenses;
 - Documented and justified in the annual budget and, when applicable, disclosed in audited financial statements;
 - Approved through the Agency’s standard annual operating budget review, if applicable.
- If the cash flow projections during the underwriting process do not support some or all the annual asset management fee, Minnesota Housing may allow capitalizing some or all the asset management fee depending on the availability of eligible funding sources.

Prohibited Uses: The asset management fee may not replace or duplicate administrative salaries already included in property operating budgets. The owner asset management fee is separate and distinct from the asset management fee paid to tax credit investors or other agencies.

Documentation Required: Fee payments must be included in annual budgets and reported in financial audits.

Annual Monitoring: The Agency may require regular reporting on asset management activities. The Agency reserves the right to reduce or suspend the fee in cases of underperformance, mismanagement, or noncompliance.

Note that the workbook version 2025 03 19 Ver 1.0 does not have a place for this in the Income and Expense Tab. The fee should be manually added in the on line 55 of the Cash-flow Tab, labeled “Asset Management Fee for Owner.”

Chapter 5 – Proforma Assumptions

5.01 Income and Expense Inflation Factors

Table 29: Income and Expense Inflation Factors Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The proforma cash flow will generally assume revenue increases of no more than 2% per year and operating expense increases of no less than 3% per year.

Developments with Section 8 Program Rental Assistance will generally assume revenue increases no greater than the historic average of the development or 1.5% per year. Developments with USDA RD Rental Assistance with budget-based rents approved by USDA RD are encouraged to include at least a 0.50% differential in the underwritten income and expense inflation factors. A partially assisted development would have a pro rata inflation factor.

Alternative inflation factors may be proposed, along with documented evidence to support the proposal. The final determination is at Minnesota Housing’s sole discretion and Minnesota Housing reserves the right to change the inflation factors based on changes in the economic outlook.

5.02 Debt Coverage Ratio

Table 30: Debt Coverage Ratio Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The level of risk presented by a development, including overall quality, current market conditions and other factors, will be considered when making the determination of what level of DCR a particular award will require.

The minimum DCR for year one of stabilized operations is as follows:

Table 31: Debt Coverage Ratio Minimum

Subsidized Properties ²	Affordable Properties	Equity Cash Out ³
1.11	1.15	1.20

² 90% Section 8 Program or USDA RD Rental Assistance

³ Equity Cash Out is defined as any refinance or restructure proposal that includes equity being taken out, including Related Party Transactions and limited partner buyouts.

The development must reflect a cash flow, after all expenses and reserves, that reflects at least a 1.05 DCR, for 15 years on a proforma basis. The cash flow must include mandatory expenditures such as bond fees. A 1.05 Expense Coverage Ratio may be used by Minnesota Housing to size a reserve when cash flow is negative during the 15-year proforma basis.

Minnesota Housing will size all funding, including HTC, using these standards as the maximum, regardless of other funder/syndicator requirements. Exceptions may be made as determined appropriate by Minnesota Housing based on the perceived risks of the proposal.

5.03 Loan-To-Value

Table 32: Loan-To-Value Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	

LMIR Amortizing Loans are underwritten to the lower of the DCR as described in Chapter 5, section 5.02 of this document, or the maximum Loan-To-Value (LTV) of 87% based on an appraisal engaged by Minnesota Housing. For subsidized properties (90% Section 8 Program or USDA RD Rental Assistance) and other affordable properties in limited circumstances, the maximum LTV may be increased to 90%. For all properties, the appropriate LTV is determined at Minnesota Housing’s sole discretion and will depend upon a variety of factors, including market analysis, the presence of long-term project based rental assistance, and the strength of expected property performance over time.

Two hypothetical values are required, and the lesser of the two values will be used to determine the LTV:

- As-completed and stabilized, subject to restricted rents
- As-completed and stabilized, assuming market rate rents

When a portion of the debt service on the LMIR Amortizing Loan is paid by proceeds from Tax Increment Financing (TIF), the total value will include the appraised value as described above, plus the present value of the remaining net tax increments, as determined by third-party documentation, such as a TIF agreement, or final TIF analysis.

Refer to Chapter 10 of this document for additional appraisal requirements.

Chapter 6 – Fee Limits

6.01 General Contractor Fee

Table 33: General Contractor Fee Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Refer to Minnesota Housing’s [Contractor's Guide](#), Chapter 4, for general contractor fee limits and requirements.

6.02 Architect Fee

Table 34: Architect Fee Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Refer to Minnesota Housing’s [Architect’s Guide](#), Chapter 3, for architect compensation guidelines.

6.03 Developer Fee

Table 35: Developer Fee Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

The Developer Fee is provided to the Developer of rental housing for the time and energy expended on, and risks associated with, putting a development together and can be included in the TDC of the development. Developer Fees include developer overhead, profit, processing, construction management and any other amounts received by the Developer or Owner as approved by Minnesota Housing. The Developer Fee must be attributed only to the development.

The maximum allowable Developer Fee is based on a percentage of the TDC less the Developer Fee. Minnesota Housing’s maximum Developer Fee is reflected in the table below. No exceptions will be made to these limits.

Table 36: Maximum Developer Fee by Development Size

Development Type	Size	Maximum Total Developer Fee
New Construction or Rehabilitation	First 50 Units	15%
New Construction or Rehabilitation	Units 51 and over	8%

Total Developer Fee: The Developer may delegate some of his or her responsibilities to a third party, such as a Development Consultant or Processing Agent, construction manager, or Owner’s representative or consultant etc. In such cases, the delegated responsibilities must be thoroughly understood by all parties involved, and the fee paid to the third party must be included in the Total Developer Fee and broken out in the Workbook. The Total Developer Fee dollar amount shall not be increased from the amount approved by Minnesota Housing at initial funding selection, HTC award or allocation.

Deferred Developer Fee: A Deferred Developer Fee may be included as a source in the construction budget and paid from cash flow after debt service. Payment of the Deferred Developer Fee may be shown on the Cash Flow tab of the Workbook. Minnesota Housing will typically allow an amount that is up to the lesser of 50% of the Total Developer Fee or the amount that can be paid back from excess cash flow in 10-13 years. When included for purposes of determining Financial Readiness to Proceed scoring points, the amount of Deferred Developer Fee is considered a committed source and must be maintained.

Net Developer Fee: The difference between the Total Developer Fee and the Deferred Developer Fee. The Net Developer Fee is the portion of the Total Developer Fee that is paid out from development sources.

Incentive Developer Fee: An Incentive Developer Fee is not allowed for developments awarded a Minnesota Housing Deferred Loan. Minnesota Housing will require any reference of an Incentive Developer Fee in the Limited Partnership Agreement (LPA) or Operating Agreement to be removed from the LPA or Operating Agreement.

Payment: When Minnesota Housing loans are disbursed during the construction period, the maximum amount of the Developer Fee paid at closing is 50% of the portion of the Net Developer Fee. The remaining 50% of the Net Developer Fee may be paid no sooner than the final construction draw.

Specific use of any cost savings at the end of construction requires approval from Minnesota Housing. For more information about cost savings at the end of construction, refer to Chapter 12 of this document.

6.04 Construction Contingency

Table 37: Construction Contingency Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

A construction contingency is required.

- For new construction developments, a 4% construction contingency is required.

- For rehabilitation developments, a 7% construction contingency is required.
- Higher contingencies (generally up to 5% for new construction or 10% for rehabilitation) may be allowed, if required by a syndicator, first mortgage lender or as determined appropriate by Minnesota Housing's architect.

Chapter 7 – Reserves and Escrows

7.01 Replacement Reserves

Table 38: Replacement Reserves Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

Replacement reserves must be budgeted at no less than \$300 per unit per year for senior housing and at no less than \$450 per unit per year for all other housing. A 3% annual inflator may be added at Minnesota Housing’s discretion. Reserves may be capitalized at an equivalent level if the operating budget will not support ongoing deposits to the reserve. If the 20 Year Capital Expenditure Template (refer to Minnesota Housing’s [Building Standards](#) webpage) indicates a higher amount necessary to address future capital needs, then higher annual deposits, annual escalators to the reserve deposit, and/or a Borrower funded initial deposit will be required. Replacement Reserves budgeted at these levels are strongly encouraged for HTC only developments, but Minnesota Housing may defer to syndicator or other lender requirements.

7.02 Initial Deposit to Replacement Reserves

Table 39: Initial Deposit to Replacement Reserves Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Generally, Minnesota Housing requires reserves to remain positive for at least 10 years on a proforma basis and may require an initial deposit to the replacement reserves, depending upon the 20-year capital needs assessment and the level of ongoing contributions to replacement reserves.

7.03 All Reserves

Table 40: All Reserves Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

All unexpended funds remaining in development reserve accounts must remain for development use during the term of Minnesota Housing’s loan or the Extended Use Period, whichever is longer. The LPA or Operating Agreement must include a provision addressing the terms and conditions for disbursement from the reserve accounts that specifically states that upon the transfer of any ownership interest or at the end of the compliance period, whichever is earlier, any funds remaining in

the reserve accounts must remain with the development for the term of Minnesota Housing’s loan or the Extended Use Period, whichever is longer.

Existing developments applying for HTCs and/or refinancing will be required to show existing reserves as a source.

7.04 Operating Deficit Escrow

Table 41: Operating Deficit Escrow Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	

An Operating Deficit Escrow (ODE) is required for all developments funded with a LMIR Amortizing Loan unless the property is an existing property with fully stabilized operations.

At the time of initial closing of the LMIR Amortizing Loan, Borrowers are required to establish an ODE, funded with cash or an irrevocable and unconditional letter of credit. The ODE is not included in the TDC. As a result, cash to fund the ODE must not be derived from any development sources.

Despite this, syndication proceeds that are otherwise needed to fund syndicator or other lender required operating reserves may instead be used to fund the ODE. The syndicator or lender reserve may not be fully funded from other sources to compensate for this. Upon release of the ODE, the developer must use the remaining proceeds to fully fund the outside reserve.

Minnesota Housing may use the ODE at its sole discretion, on behalf of the Borrower, to pay for development rent-up and operating expenses during the initial lease-up period.

The ODE will be sized based on the greater of:

- 3% of the loan amount, or
- The projected operating deficit during the absorption period, as determined by Minnesota Housing’s underwriting analysis.

The ODE will be maintained until the later of the following two scenarios:

- One year after permanent loan closing, or
- Achievement of a 1.11 DCR for six consecutive months. The DCR will be calculated based on actual collected revenue less the greater of actual or underwritten effective gross expenses.

After achievement of the later of these two scenarios, the letter of credit or the remaining cash and interest earned thereon is returned to the Borrower.

Based on Minnesota Housing’s Mortgage Credit Committee review, bond rating agency or marketing requirements, Minnesota Housing may require the Borrower to extend the period or require a larger ODE.

7.05 Tax and Insurance Escrows

Table 42: Tax and Insurance Escrows Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

For developments funded with LMIR Amortizing Loans or HIB loans that have Minnesota Housing Asset Management oversight, Minnesota Housing will establish and maintain real estate tax and property insurance escrow accounts for the term of the loan.

The formulas are as follows:

- Real Estate Tax: 1/12 of the annual real estate tax multiplied by the number of months needed to fully fund the next tax payment
- Insurance: 1/12 of the annual insurance bill multiplied by the number of months needed to fully fund the next insurance payment

For occupied properties, these escrows are established at the time of the initial loan closing. For unoccupied properties, the escrows will be established and funded after construction completion.

The initial deposit to fund the escrow accounts are not funded through loan sources but must be funded outside of the development budget.

The amount of reserves will be estimated on the development’s Workbook on the Sources tab during underwriting.

Chapter 8 – Other Requirements

8.01 Recourse and Guarantees

Table 43: Recourse and Guarantee Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

A Borrower must be a single asset entity to obtain a Nonrecourse loan. Loans to multiple asset entities will be limited to Deferred Loans and will be full Recourse to the Borrower and Guarantor(s).

Minnesota Housing Bridge Loans will be full Recourse to the Borrower.

Required Guarantees:

- Construction Completion Guaranty: guarantees timely lien-free completion of the work in accordance with the construction plans and specifications and the applicable loan documents.
- Repayment Guaranty: guarantees principal and interest payments during construction and, when applicable, until the development has achieved a 1.11 DCR (assuming the higher of actual or underwritten expenses) for three consecutive months.
- Operations Guaranty: guarantees everything under the loan documents, excluding construction completion and principal and interest.

Table 44: Guarantee Applicability by Loan Type

Minnesota Housing Loan Type	Construction Completion Guaranty	Repayment Guaranty	Operations Guaranty
LMIR Amortizing Loan	If applicable ⁴	Yes	Yes
LMIR Bridge Loan	Yes	Yes	Yes
Deferred Loan – when the construction budget is not in balance at closing	Yes	No	No
Deferred Loan – when the construction budget is in balance at closing	If applicable ⁵	No	No

Minnesota Housing reserves the right to require a Construction Completion Guaranty from the Developer, regardless of its affiliation with the Sponsor.

⁴ A construction completion guaranty is required when the LMIR Amortizing Loan is closed and may be drawn upon during the construction period.

⁵ Minnesota Housing reserves the right to require a construction completion guaranty for any Deferred Loan that is in first lien position and is greater than \$2 million.

Minnesota Housing reserves the right to require additional guarantees at its sole discretion based on the risks of the transaction and the financial strength of the entities involved.

8.02 Tribal Nation Guaranty

Table 45: Tribal Nation Guaranty Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

Both amortizing first mortgage loans and Deferred Loans for developments located on Tribal land, may be guaranteed by the Tribal government in the form of a Tribal council resolution addressing:

- Construction completion
- Operating cost shortfalls
- Debt service payments

8.03 Return on Equity

Table 46: Return on Equity Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

[Minn. Stat. 462A.03, subd. 13](#) defines Eligible Mortgagor and establishes limitations on the rate of return to 15% under certain programs.

- The annual distribution must not exceed 15% of the initial capital contribution
- Absent an initial capital contribution, Minnesota Housing has defined this as 1.5% of Total Mortgageable Cost (TMC) less Developer Fee
- Returns exceeding 15% are transferred to a residual receipts fund and may be used for development improvements approved by Minnesota Housing

No return on equity is allowed on loans made to nonprofit or cooperative housing corporations.

There is no limitation of return to loans made under the following programs:

- Preservation Affordable Rental Investment Fund (PARIF)/Affordable Rental Investment Fund (ARIF)
- Economic Development and Housing Challenge (EDHC) when total Minnesota Housing funding, from all sources, is less than 50% of the Total Development Cost

8.04 Sales Tax Rebate

Table 47: Sales Tax Rebate Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X		X

All developments receiving HTC or Deferred Loan funding from Minnesota Housing that are eligible for a Sales Tax Rebate must participate. An estimate of the Sales Tax Rebate will be considered a source used to size HTC and Deferred Loan awards. Obtaining and including Sales Tax Rebates as a source is encouraged for all 4% HTC proposals. The Sales Tax Rebate estimate is not basis eligible and will be removed from basis on an HTC development. The Sales Tax Rebate must be bridged during the construction phase when Minnesota Housing loans are also available. The Sales Tax Rebate will be used first to pay back the source used to bridge the rebate and any excess Sales Tax Rebate may be used to pay the Deferred Developer Fee and/or may be required to be deposited into a development reserve at Minnesota Housing’s discretion.

8.05 Energy Rebates

Table 48: Energy Rebates Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X		X

All developments receiving HTC or Deferred Loan funding from Minnesota Housing must provide an Energy Rebate Analysis. The purpose of this requirement is to leverage utility funds and federal energy incentives in order to increase energy efficiency in Minnesota’s affordable housing. In order to comply, each application must contain an Energy Rebate Analysis that outlines the type and amount of available utility and federal energy incentives. The estimated energy rebate will be considered a source used to size HTCs and Deferred Loan awards. Obtaining and including Energy Rebates as a source is encouraged for all 4% HTC proposals. The energy rebate may or may not be basis eligible; consult a certified public accountant for basis eligibility. The energy rebate must be bridged during the construction phase when Minnesota Housing loans are also available. The energy rebate will be used first to pay back the source used to bridge the rebate and any excess energy rebate funds may be used to pay the Deferred Developer Fee and/or be required to be deposited into a development reserve at Minnesota Housing’s discretion.

8.06 Renewable Energy Certificates

Table 49: Renewable Energy Certificates Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Developments may choose to purchase green power via Renewable Energy Certificates (RECs) to satisfy building performance obligations associated with selection criteria committed to in the applicable funding round. The cost to purchase RECs must be paid up front and included in the development budget rather than paying for them over several years. The cost shall not be passed along to the tenant as additional utility costs. The cost to purchase RECs is an eligible mortgageable expense although it is not a good cost/eligible costs for bond purposes.

8.07 Community Service Facilities and Housing-Related Spaces

Table 50: Community Service Facilities and Housing-Related Spaces Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X		X

A Community Service Facility is a facility that is part of the qualified low-income housing development designed to serve primarily individuals, including tenants and non-tenants, whose income is 60% or less of area median income.

Costs for housing-related space such as community, administrative, or program space is a mortgageable cost while costs for Community Service Facilities are generally not mortgageable under Minnesota Housing Deferred Loan programs including bond funded loans nor included in basis for calculating HTCs, except in limited circumstances noted below.

For Housing Tax Credits, the cost of a Community Service Facility may be included in basis only if the building is located in a Qualified Census Tract (QCT). The eligible basis of that facility must not exceed the sum of 25% of the first \$15 million of eligible basis of the development plus 10% of the remaining eligible of the development. All Community Service Facilities that are part of the same qualified low-income housing development will be treated as one facility.

The cost of depreciable property used in common areas or provided as comparable amenities to all residential units may be included in eligible basis. The cost of tenant facilities such as parking, garages and swimming pools may be included in eligible basis if there is no separate charge for the use of the facilities and they are available to all tenants in the development.

Only limited guidance has been issued by the Internal Revenue Service (IRS) regarding this issue. No assurances can be given that additional IRS guidance will not require further adjustments to Minnesota Housing’s Qualified Action Plan (QAP) and additional reviews of selected developments.

Refer to the [Housing Infrastructure Guide](#) for factors that Minnesota Housing will consider when determining the amount of housing-related space that is eligible to be funded with bond proceeds.

Chapter 9 – Acquisition

9.01 Purchase Price

Table 51: Purchase Price Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Minnesota Housing will underwrite the acquisition cost based on the lesser of:

- The option/purchase agreement purchase price
- The appraised value of the property

For a Related Party Transaction that occurs within three years of a previous arms-length, third-party transaction, Minnesota Housing will size its funding based upon the lesser of:

- The previous third-party transaction’s purchase price, with no adjustment for appreciation or depreciation
- The appraised value of the property at the time of selection for funding

For a development acquired as part of a portfolio acquisition, Minnesota Housing will use the value as identified on the Certificate of Real Estate Value to establish the initial purchase price.

For a development acquired as part of a land and/or building subdivision, Minnesota Housing will use a reasonable allocation from the Certificate of Real Estate Value to establish the initial purchase price.

For a Related Party Transaction that occurs at the time of closing, Minnesota Housing will evaluate the amount of equity take-out and may resize its funding awards.

Refer to the Chapter 10 of this document for details on valuation methodology.

9.02 Acquisition-Related Costs

Table 52: Acquisition-Related Costs Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Minnesota Housing may include in its funding award certain acquisition-related costs incurred in the three years prior to the application date. The following costs may be included in the Acquisition or Refinance Existing Debt Costs section(s) of the Workbook, as applicable:

- Relocation
- Loan fees and three years or fewer of interest on an acquisition loan up to a 6% interest rate

- Legal costs related to acquisition
- Title insurance
- Capital improvements made since acquisition (if documented)
- Taxes, insurance, security, maintenance, utilities

Including such costs in the Acquisition or Refinance Existing Debt Costs section of the Workbook does not change how acquisition-related costs are treated by Minnesota Housing for the purpose of calculating the percentage of intermediate costs for HTC purposes.

During the pre-development holding period, all net cash flow from operations, except for a reasonable asset management fee, must be directed toward holding costs and improvements if Minnesota Housing Deferred Loan funding is requested.

Chapter 10 – Appraisal Requirements

10.01 Appraisal to Support Acquisition Costs

Table 53: Appraisal to Support Acquisition Costs Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Minnesota Housing will underwrite the acquisition cost based on the lesser of the option/purchase agreement purchase price or the as-is appraised value of the property. Refer to Chapter 9 of this document for additional information regarding acquisition costs.

A Minnesota Housing engaged appraisal is required to support the acquisition price and will be used by Minnesota Housing and its Funding Partners to size funding awards, including competitive (9%) HTC. Appraisals ordered by other lenders or syndicators that meet Minnesota Housing appraisal standards and list Minnesota Housing as an intended user may be allowed at Minnesota Housing’s sole discretion. Refer to Chapter 10, section 10.05 of this document for appraisal requirements for proposals requesting a Preliminary Determination Letter without any Minnesota Housing loans.

The appropriate value will be based on the type of proposal:

- Land-only (for new construction): Fee simple, market value of the land. The appraisal will consider the real property's zoning as of the effective date of the appraiser's opinion of value. If the real property consists of more than one parcel, the parcels will be combined in one appraisal with one value conclusion.
- Acquisition/Rehab: Fee simple, in as-is condition. The appropriate value will be determined by Minnesota Housing based on the characteristics of the proposal and the ability to be released from existing restrictions, if any.
 - Assuming market rate rents, and
 - Assuming existing restricted rate rents
- Adaptive Re-use: Fee simple market value of the property to be adapted for an alternate use. The valuation will assume the highest and best use permitted by law and economically feasible in the current market.

The following types of proposals are exempt from the appraisal requirement at the time of selection; however, Minnesota Housing, at its sole discretion, reserves the right to secure an appraisal at the Borrower’s expense at a later date:

- Acquisition price up to \$250,000, or
- Land only where there is no Buyer/Seller Identity of Interest, or
- Land only for 9% HTC only requests, regardless of Buyer/Seller Identity of Interest, or

- Single family homes (one- to four-family) that are aggregated under one loan. Minnesota Housing will use the assessed value unless the Borrower requests an appraisal for determining acquisition cost as defined in this guide, or
- Property on Tribal lands.

10.02 Prior to Closing – Low and Moderate Income Rental Amortizing Loans

Table 54: Prior to Closing – Low and Moderate Income Rental Amortizing Loans Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	

For LMIR Amortizing Loans, an appraisal engaged by Minnesota Housing is required prior to obtaining final Mortgage Credit Committee approval. Appraisals ordered by other lenders or a syndicator that meet Minnesota Housing appraisal standards and list Minnesota Housing as an intended user may be allowed at Minnesota Housing’s sole discretion.

Two hypothetical values are required, and the lesser of the two values will be used to determine the loan-to-value:

- As-completed and stabilized, subject to restricted rents
- As-completed and stabilized, assuming market rate rents

In addition, for LMIR Amortizing Loans that are sized to also include proceeds from TIF, the total value will include the appraised value as described above, plus the present value of the remaining net tax increments, as determined by third-party documentation, such as a TIF agreement, or final TIF analysis.

The maximum Loan-to-Cost (LTC)/Loan-to-Value (LTV) is 90%. The appropriate LTV for each property is determined at Minnesota Housing’s sole discretion. The maximum LTV is not offered in all cases, and will depend upon a variety of factors, including market analysis, the presence of long-term project based Rental Assistance, and the strength of expected property performance over time.

Generally, plans and specifications must be at least 50% complete for the appraiser to adequately establish the “as-completed” value.

10.03 Prior to Closing – Deferred Loans

Table 55: Prior to Closing – Deferred Loans Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
		X

For Deferred Loans, Minnesota Housing requires an appraisal prior to closing like that required for LMIR Amortizing Loans (above). Borrowers should discuss this requirement with their assigned

underwriter. Appraisals ordered by other lenders or a syndicator that meet Minnesota Housing appraisal standards and list Minnesota Housing as an intended user may be allowed at Minnesota Housing’s sole discretion. Developments that are Primarily Supportive Housing with little or no operating income, the As Complete and Stabilized appraisal may be waived at Minnesota Housing’s sole discretion.

Developments with Deferred Loans that are exempt from this requirement include:

- Single family homes (one- to four-family) that are aggregated under one loan; Minnesota Housing will use the assessed value unless the Borrower requests an appraisal
- Property on Tribal lands

10.04 Appraisal Expiration Period

Table 56: Appraisal Expiration Period Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

For appraisals used to support the acquisition costs, the appraisal will be valid for funding awards made within 12 months from the effective date of the report.

For LMIR Amortizing Loans, the effective date of the appraisal must be within six months of closing or execution of the End Loan commitment.

For Deferred Loans, the effective date of the appraisal must be within 12 months of closing or execution of the End Loan commitment.

All costs incurred for the appraisal, including any revisions and updates, will be the responsibility of the applicant.

10.05 4% Housing Tax Credit – Issuance of a Preliminary Determination Letter

Table 57: 4% Housing Tax Credit- Issuance of a Preliminary Determination Letter Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X		

An appraisal is required to support the acquisition price and will be used by Minnesota Housing to size funding awards, including the award of 4% HTC’s, subject to the exemptions identified in Chapter 10, section 10.01 of this document. Developments that are requesting a Preliminary Determination Letter and that are not receiving Minnesota Housing Deferred Loans or amortizing first mortgage loans can submit a lender approved as-is appraisal in lieu of a Minnesota Housing ordered appraisal. Minnesota Housing reserves the right to engage a Minnesota Housing ordered appraisal at the Borrower’s

expense if the submitted appraisal is determined to not be acceptable at the sole discretion of Minnesota Housing.

Chapter 11 – Relocation and Involuntary Displacement

Table 58: Relocation and Involuntary Displacement Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

All existing developments applying for Minnesota Housing HTC or financing for rehabilitation activities must submit a Relocation Plan that addresses both temporary relocation (including in-place displacement) and permanent displacement. Minnesota Housing has created the principles identified within this guide that should be considered for all rehabilitation proposals that will include any temporary relocation. These principles do not apply to servicing requests on existing loans.

The purpose of these principles is to help in the development of a Relocation Plan for temporary relocation scenarios. Temporary relocation includes in-place displacement, when a tenant will need to be 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.

Relocation plans for temporary relocation should incorporate the following principles:

- Provide fair and equitable treatment of tenants who are temporarily relocated from their units for any length of time.
- Consider different needs of the person, including special populations housed at the development that may require reasonable accommodations. For example, reasonable accommodations may include provisions to tenants with specific accessibility needs such as ramps into alternate accommodations.
- To the extent feasible, limit temporary relocation that results in restrictions to units. If temporary displacement results in daytime restrictions to units:
 - Complete such repairs and renovations impacting such tenants as quickly as possible.
 - Tenants should have safe access to sleeping areas, bathrooms, and kitchen facilities at the end of each day.
 - Provide reasonable daytime provisions and access to other suitable accommodations while tenants are temporarily out of their unit. For example, provide onsite access to community kitchen facilities, laundry rooms, bathrooms, etc.
- Tenants should be fairly compensated for the time they do not have access to their units. Compensation should be clearly identified and equitable among tenants and could include food vouchers or other monetary stipends.
- It is the Owner’s obligation to comply with the requirements and covenants in lease agreements with existing tenants who are subject to temporary relocation.

Chapter 12 – Closing

12.01 Closing in Balance

Table 59: Closing in Balance Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

All sources of funds must be available at closing, or bridge funding must be provided to pay development costs through the draw period. Equity (including HTC syndication proceeds not bridged) will be deposited with the title company at closing. For HTC developments with equity pay-ins during construction, Minnesota Housing will, at its sole discretion, determine the need to bridge these funds based on a review of the development, the pay-in schedule, the investor/syndicator, general partner, Developer, and general contractor.

In addition to HTC equity proceeds, other sources commonly required to be bridged are TIF, grants, Interim Income (existing properties) energy rebates, and Sales Tax Rebates.

12.02 Minimum Housing Tax Credit Equity Pay-In at Closing

Table 60: Minimum Housing Tax Credit Equity Pay-In at Closing Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
	X	X

For all developments funded by HTC equity when Minnesota Housing loans will be disbursed during construction, the equity investor must pay out at least 20% of the total HTC equity at the initial or construction loan closing. A higher percentage may be required for new syndication entrants to the Minnesota HTC market or on small developments where 20% equity is not deemed adequate by Minnesota Housing, at Minnesota Housing’s sole discretion.

12.03 Cost Savings at the End of Construction

Table 61: Cost Savings at the End of Construction Applicability

Housing Tax Credits	LMIR Amortizing Loans	Deferred Loans
X	X	X

Specific use of any cost savings at the end of construction requires approval from Minnesota Housing and in no case may cost savings be used to increase the approved Developer Fee.

Cost savings remaining at the end of the construction or rehabilitation, if any, may be used at Minnesota Housing’s discretion for the following:

- (i) deposited in the replacement reserve account;
- (ii) used to reduce Minnesota Housing funding; or
- (iii) put to another appropriate use for the benefit of the development, as approved by Minnesota Housing.

The use of cost savings to reduce the approved Deferred Developer Fee will only be approved in extraordinary circumstances where the Deferred Developer Fee was increased after development selection. Cost savings cannot be used to fund an Incentive Developer Fee if awarded a Minnesota Housing Deferred Loan.

Remaining funds due to cost savings during construction or rehabilitation from federal funding, such as HOME and NHTF, are not allowed to fund reserves. In most cases, Housing Infrastructure Bonds cannot fund reserves, however, consult with the assigned underwriter for a determination.

Appendix A – Terms and Definitions

Table 62: Terms and Definitions

Term	Definition
Affirmative Fair Housing Marketing Plan (AFHMP)	HUD Form 935.2A. Refer to Minnesota Housing’s Fair Housing webpage for more information.
Allocating Agency	Any entity authorized by the state of Minnesota and Section 42 to allocate HTC in Minnesota.
Borrower	An entity who has received an amortizing first mortgage loan or Deferred Loan from Minnesota Housing.
Bridge Loan	A Bridge Loan provides interim construction financing, “bridging” HTC equity installments that will be paid upon, or after, construction completion. The Bridge Loan may also bridge other sources that will be paid after construction completion such as energy rebates and Sales Tax Rebates.
Buyer/Seller Identity of Interest	A Buyer/Seller Identity of Interest exists when there is a Related Party Transaction.
Cash Flow Note Provisions	Some Borrowers may be required to make annual payments on a Minnesota Housing Deferred Loan. A Cash Flow Note explains how the payments are calculated.
Closing In Balance	All sources of funds are available at closing, or bridge funding provided to pay development costs through the draw period.
Community Service Facility	A facility that is part of the qualified low-income housing development designed to serve primarily individuals, including tenants and non-tenants, whose income is 60% or less of area median income.
Coordinated Entry (CE)	A centralized or coordinated process designed to coordinate program participant intake, assessment and provision of referrals. Used to prioritize homeless households for housing.
Debt Coverage Ratio (DCR)	A measure of the cash flow available to pay current debt obligations. The ratio states net operating income as a multiple of debt obligations due within one year.
Deferred Developer Fee	Any portion of the Developer Fee that will not be paid with project sources but instead will be paid from available cash flow from property operations.
Deferred Loan	A non-amortizing loan, typically with a term of 30 years or coterminous with the first mortgage (if applicable). Minnesota Housing Deferred Loans typically bear interest of 0-1% and are repayable upon loan maturity. Some developments may be required to make annual payments pursuant to a Cash Flow Note.
Developer	Typically a separate legal entity from the Owner, Borrower or Guarantor(s) who may complete the financing and development of a project for a fee.

Term	Definition
Developer Fee	A fee paid to the Developer as part of the project soft costs to cover overhead, labor, and other project related operational expenses born by the Developer during the project.
Development Services Agreement	A contract between the Owner of a development and a third-party Developer.
Eligible Mortgagor	A nonprofit or cooperative housing corporation; the Department of Administration for the purpose of developing community-based programs as defined in Minn. Stat. 246C.11 ; a limited profit entity or a builder as defined by Minnesota Housing in its rules, which sponsors or constructs residential housing as defined in subdivision 7; or a natural person of low- or moderate-income, except that the return to a limited dividend entity shall not exceed 15% of the capital contribution of the investors or such lesser percentage as Minnesota Housing shall establish in its rules, provided that residual receipts funds of a limited dividend entity may be used for Minnesota Housing-approved, housing-related investments owned by the limited dividend entity without regard to the limitation on returns. Owners of existing residential housing occupied by renters shall be eligible for rehabilitation loans, only if, as a condition to the issuance of the loan, the Owner agrees to conditions established by Minnesota Housing in its rules relating to rental or other matters that will make sure that the housing will be occupied by persons and families of low- or moderate-income. Minnesota Housing shall require by rules that the Owner give preference to those persons of low- or moderate-income who occupied the residential housing at the time of application for the loan.
End Loan	A permanent loan that is funded after completion of construction, at the time of repayment of any construction/bridge financing.
Energy Rebate Analysis	A report of energy rebates being considered/pursued for a development.
Equity Cash Out	Defined as any refinance or restructure proposal that includes equity being taken out, including transactions that are related party acquisitions and limited partner buy outs.
Expense Coverage Ratio (ECR)	A multiple of annual expenses on a pro forma basis. An ECR may be used to size a capitalized reserve when an operating deficit is projected.
Extended Use Period	The term of the Declaration of Land Use Restrictive Covenants for Low-Income Housing Tax Credits under the HTC program. The first fifteen years are referred to as the “Initial Compliance Period” and years 16 and onward are referred to as the Extended Use Period.
Funding Partner	Funding Partners work closely with Minnesota Housing and in coordination with Minnesota Housing’s annual Multifamily Consolidated Request for Proposals (RFP) process. Funding Partners include Greater Minnesota Housing Fund, the Metropolitan Council, the Metro HRA, and the St. Paul PHA.
Guarantor	The entity or individual who signs the Guaranty.

Term	Definition
Guaranty	Available upon request from Minnesota Housing staff.
High Priority Homeless (HPH)	Formerly known as Long -term Homeless or LTH. Households prioritized for permanent supportive housing by the Coordinated Entry system.
Holding Costs	Costs of owning property prior to the closing of the financing to construct and operate the development.
HOME Investment Partnerships Program (HOME)	A federal program administered by Minnesota Housing (as well as others).
Housing Assistance Payments (HAP)	A HUD Rental Assistance Contract under the Project Based Section 8 Rental Assistance Program.
Housing Choice Voucher	<p>The Housing Choice Voucher program provides tenant-based Rental Assistance. The participant is free to choose any housing that meets the requirements of the program and is not limited to units located in subsidized housing projects.</p> <p>Housing Choice Vouchers are administered locally by public housing agencies (PHAs). The PHAs receive federal funds from the U.S. Department of Housing and Urban Development (HUD) to administer the voucher program.</p>
Housing Support	Formerly known as Group Residential Housing (GRH), is a state-funded income supplement program that assists low-income individuals who have a disability or are homeless. Housing Support room and board payments are made directly to the provider of housing on behalf of the eligible person. Providers in many different types of housing may enter into a Housing Support agreement with their county. The program is administered by Minnesota Department of Human Services (DHS).
Housing Tax Credits (HTC)	Also known as Low Income Housing Tax Credit (LIHTC), the Federal Tax Reform Act of 1986 created the Housing Tax Credit (HTC) Program (refer to section 42 of the Internal Revenue Code) for qualified residential rental properties. The HTC Program offers a reduction in tax liability to owners and investors in eligible low-income rental housing projects involving new construction, rehabilitation, or acquisition with rehabilitation.
HUD Risk-Sharing Mortgage Insurance	<p>In order to minimize Minnesota Housing’s risks, permanent LMIR Amortizing Loans typically obtain mortgage insurance through HUD’s Risk-Sharing Program. Under Minnesota Housing’s Risk-Sharing Agreement with HUD, HUD contracts to reimburse Minnesota Housing for a portion of the loss from any defaults that occur while the insurance is in force. In this way, Minnesota Housing is able to effectively increase its financing capacity. In addition, Minnesota Housing utilizes the program as an incentive to partner with HUD to preserve and renew expiring Section 8 contracts.</p> <p>Level I: HUD’s insured portion is 50%</p> <p>Level II: HUD’s insured portion is up to 90%</p>

Term	Definition
Incentive Developer Fee	An increase to the Developer Fee based on cost savings or other performance. This is not allowed by Minnesota Housing if financing includes a Minnesota Housing Deferred Loan.
Interim Income	Cash flow from an existing property while it is undergoing rehabilitation and is not required to make payments on amortizing debt.
Internal Revenue Service (IRS)	Federal agency organized under the responsibility of the United States Treasury to administer and enforce the internal revenue laws.
Limited Liability Company (LLC)	A form of business ownership where owners are members rather than partners.
Limited Partnership (LP)	A form of partnership similar to a general partnership, except that where a general partnership must have at least two general partners; an LP must have at least one general and at least one limited partner.
Limited Partnership Agreement (LPA)	A document that establishes the terms of the partnership and the agreements between partners. In HTC developments with an LP owner, the LPA stipulates the timing and conditions for pay-ins of HTC equity, reserves, and the Developer Fee.
Loan-To-Cost (LTC)	The ratio of a loan to the costs to develop the property.
Loan-To-Value (LTV)	The ratio of a loan to the value of the property.
Low and Moderate Income Rental (LMIR) Amortizing Loan	Provides long-term amortizing mortgage debt for multifamily rental housing affordable to low- and moderate-income Minnesotans. Long-term, fixed-rate mortgage loans are available for financing new construction, stabilization of existing properties and for the preservation of existing federally assisted rental housing. When LMIR Amortizing Loans are used in a tax-exempt bond transaction, Minnesota Housing may issue short-term bonds to fund a Bridge Loan to meet the 50% test in order for the development to qualify for 4% HTCs. The Bridge Loan will be used during construction period and must be in first lien position. Subject to availability, Bridge Loans may also be funded with taxable bond proceeds or other investment grade resources, at Minnesota Housing's discretion.
Low-Income Rental Classification (LIRC)	This results in a class rate reduction for qualifying units in some rent and income-restricted properties. Only those rental properties subsidized under a federal or state government program or meeting certain rent and income restrictions are eligible for the lower class rate.
Management and Operating (M&O) Budget	The total operating expenses for a multifamily rental property not including real estate taxes and reserves.
Minnesota Department of Human Services (DHS)	The state of Minnesota agency that administers the Housing Support program.
Minnesota Supplemental Aid (MSA) Housing Assistance	An income supplement for people with disabilities who receive Supplemental Security Income (SSI). Minnesota Supplemental Aid

Term	Definition
	recipients who pay more than 40% of their income toward housing costs can also receive MSA Housing Assistance to help pay for housing costs.
Mortgage Credit Committee	A cross-divisional management group of Minnesota Housing that approves credit analysis, ownership structures and financing of developments selected for multifamily loans and related matters.
Multifamily Consolidated Request for Proposals (RFP)	The Multifamily Consolidated Request for Proposals (RFP) is a competitive funding round, offered once per year, which provides a means of "one stop shopping" by consolidating and coordinating multiple multifamily housing funding resources into one application process. It deploys significant capital funds and is the primary mechanism that Minnesota Housing uses to award and allocate federal and state resources.
National Housing Trust Fund (NHTF)	A federal, affordable housing production program to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including families experiencing homelessness.
Net Developer Fee	The difference between the Total Developer Fee and the Deferred Developer Fee. The Net Developer Fee is the portion of the Total Developer Fee that is paid out from development sources.
Nonrecourse	Nonrecourse debt limits the lender to pursue repayment of the debt to the stated collateral.
Operating Agreement	A document that establishes the terms of the limited liability company and the agreements between members. In HTC developments with LLC owners, the Operating Agreement stipulates the timing and conditions for pay-ins of HTC equity, reserves, and the Developer Fee.
Operating Deficit Escrow (ODE)	A reserve required for all developments funded with a LMIR Amortizing Loan.
Other Homeless Households	Households, other than High Priority Homeless, that include (i) individuals leaving institutions that do not have a permanent residence or (ii) other homeless household populations not referred by the Coordinated Entry System.
Owner	An entity or person who holds title to the real property upon which the development is located.
Partially Supportive Housing	Developments in which less than 50% of the total units will serve HPH, PWD or Other Homeless Households.
Payment in Lieu of Taxes (PILOT)	Made to compensate a local government for some or all of the tax revenue that it loses because of the nature of the ownership or use of a particular piece of real property. Usually it relates to the foregone property tax revenue.
People with Disabilities (PWD)	Minnesota Housing's Self-Scoring Worksheet defines PWD as persons with any of the following:

Term	Definition
	<ul style="list-style-type: none"> • A serious and persistent mental illness as defined in Minn. Stat. 245.462, subd. 20(c); or • A developmental disability as defined in U.S. Code, title 42, section 6001, paragraph (5), as amended; or • Assessed as drug dependent as defined in Minn. Stat. 254A.02, subd. 5 and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minn. Stat. 254A.02, subd. 2; or • A brain injury as defined in Minn. Stat. 256B.093, subd. 4(a); or • Permanent physical disabilities that substantially limit major life activities, if at least 50% of the units in the development are accessible as provided under Minnesota Rules, chapter 1341.
Preliminary Determination Letter	Issued by the HTC Allocating Agency indicating that a proposal satisfies the requirements for eligibility for HTC through the issuance of tax-exempt bonds. Also known as “42m Letter.”
Primarily Supportive Housing	Developments in which 50% or more of the total units will serve HPH, PWD or Other Homeless Households.
Processing Agent or Development Consultant	The Processing Agent or Development Consultant for a development is a third party unrelated to the Sponsor who the Developer contracts with to prepare funding applications and/or manage submittals of due diligence.
Qualified Census Tracts (QCTs)	QCTs are designated by HUD in which 50% of the population has an income of less than 60% of the area median or has a poverty rate of at least 25%; where such areas do not comprise more than 20% of the overall population (for a current list of the HUD-designated QCTs, go to Minnesota Housing’s website under HTC Reference Materials or go directly to the Qualified Census Tract Table Generator or Qualified Census Tract Map).
Recourse	Recourse debt holds the borrower personally responsible and allows the lender to pursue repayment of the debt beyond the stated collateral.
Related Party Transaction	Acquisition of a property where there is a common or related entity as part of the ownership structure of both the buyer and seller.
Relocation Plan	Minnesota Housing requires the Developer to submit a Relocation Plan for any temporary or permanent displacement of tenants. Developments that are HUD assisted are required to submit a Relocation Plan in compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA).
Renewable Energy Certificates (RECs)	RECs are used to track renewable energy from the point of generation (offsite) to a purchaser of green power. The SB2030 (a popular, recognized enhanced sustainability program) allows building owners to meet energy efficiency goals by purchasing green power generated offsite.
Rental Assistance	A revenue source used to pay a portion of the tenant’s monthly rent. Rental Assistance may be either project-based or tenant-based.

Term	Definition
Sales Tax Rebate	A rebate received from the Minnesota Department of Revenue. When an entity that is exempt from a sales and use tax appoints a contractor or subcontractor as its purchasing agent, that contractor or subcontractor may make purchases under a construction contract for which the Nonprofit Sponsor is eligible to apply to have rebated to them. Nonprofit Sponsors are required to include a Sales Tax Rebate as a source of funding for any development that is requesting Minnesota Housing funding, including HTCs or Deferred Loans.
Section 8 Project-based Rental Assistance (Section 8) Program	Enables low-income households to afford modest apartments by contracting with private Owners to rent some or all of the units in their housing developments to low-income families.
Sponsor	An individual or a legal entity that exercises control and decision-making authority over the development.
Supportive Housing	Supportive Housing is affordable housing linked with social services tailored to the needs of the population being housed. The goal of Supportive Housing is to provide affordable housing with access to an array of services designed to foster housing stability and improve health and quality of life for the population to be served.
Surplus Cash	Certain development cash pursuant to the calculation set forth in HUD Form 92466M Regulatory Agreement for Multifamily Projects, section 13 or Minnesota Housing’s Computation of Surplus Cash Form .
Tax Increment Financing (TIF)	A public financing method that is used as a subsidy for redevelopment, infrastructure, and other community improvement projects.
Total Developer Fee	Total Developer Fees include fees paid on behalf of the Developer to third-party consultants engaged to complete the Developer’s tasks. Common examples include Development Consultant or Processing Agent, construction manager, or Owner’s representative. In such cases, the fee paid to the third party must be included in the Total Developer Fee and broken out in the Workbook.
Total Development Cost (TDC)	The total budget for the development of an affordable housing development.
Total Mortgageable Cost (TMC)	TMC is TDC less non-mortgageable costs, generally reserves and other costs not required by and payable from Minnesota Housing funds.
Uniform Relocation Act (URA)	The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), passed by Congress in 1970, is a federal law that establishes minimum standards for federally funded programs and developments that require the acquisition of real property (real estate) or displace persons from their homes, businesses or farms.
United States Department of Agriculture (USDA) Rural Development (RD)	USDA Rural Development is a mission area within the United States Department of Agriculture which runs programs intended to improve the economy and quality of life in rural parts of the United States.

Term	Definition
United States Housing and Urban Development (HUD)	A cabinet department that administers programs that provide housing and community development assistance.
Workbook	The Multifamily Workbook is the Excel tool used for application and which is updated through loan closing and 8609, if applicable for Minnesota Housing HTCs, first mortgages, Deferred Loans, Rental Assistance, and operating subsidies.

Appendix B – Legal Addendum

1.01 Conflict and Control

In the event of any conflict between the terms of this Addendum and the document to which it is attached, the terms of this Addendum will govern and control.

1.02 Fraud

Fraud is any intentionally deceptive action, statement or omission made for personal gain or to damage another.

Any person or entity (including its employees and affiliates) that enters into a contract with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the communication channels described in section 1.07.

1.03 Misuse of Funds

A contracting party that receives funding from Minnesota Housing promises to use the funds to engage in certain activities or procure certain goods or services while Minnesota Housing agrees to provide funds to the recipient to pay for those activities, goods or services. Regardless of the Minnesota Housing program or funding source, the recipient must use Minnesota Housing funds as agreed, and the recipient must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

A misuse of funds shall be deemed to have occurred when: (1) Minnesota Housing funds are not used as agreed by a recipient; or (2) a recipient cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the contract.

Any recipient (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the communication channels described in section 1.07.

1.04 Conflict of Interest

A conflict of interest – Actual, Potential or Appearance of a Conflict of Interest – occurs when a person has an actual or apparent duty or loyalty to more than one organization and the competing duties or loyalties may result in actions which are adverse to one or both parties. A Potential Conflict of Interest or Appearance of a Conflict of Interest exists even if no unethical, improper or illegal act results from it.

- **Actual Conflict of Interest:** An Actual Conflict of Interest occurs when a person’s decision or action would compromise a duty to a party without taking immediate appropriate action to eliminate the conflict.
- **Potential Conflict of Interest:** A Potential Conflict of Interest may exist if a person has a relationship, affiliation or other interest that could create an inappropriate influence if the person is called on to make a decision or recommendation that would affect one or more of those relationships, affiliations or interests.
- **Appearance of a Conflict of Interest:** The Appearance of a Conflict of Interest means any situation that would cause a reasonable person, with knowledge of the relevant facts, to question whether another person’s personal interest, affiliation or relationship inappropriately influenced that person’s action, even though there may be no Actual Conflict of Interest.

A conflict of interest includes any situation in which one’s judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a Partner, Family Member, Relative, Friend, Business or other Outside Interest with which they are involved. Such terms are defined below.

- **Business:** Any company, corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual or any other legal entity which engages either in nonprofit or profit-making activities.
- **Family Member:** A person’s current and former spouse; children, parents, and siblings; current and former children-in-law, parents-in-law, and siblings-in-law; current and former stepchildren and stepparents; grandchildren and grandparents; and members of the person’s household.
- **Friend:** A person with whom the individual has an ongoing personal social relationship. “Friend” does not generally include a person with whom the relationship is primarily professional or primarily based on the person being a current or former colleague. “Friend” does not include mere acquaintances (that is, interactions are coincidental or relatively superficial). Social media friendships, connections, or links, by themselves, do not constitute friendship.
- **Outside Interest:** An Outside Interest may occur when an individual, their Family Member or their Partner has a connection to an organization via employment (current or prospective), has a financial interest or is an active participant.
- **Partner:** A person’s romantic and domestic partners and outside Business partners.
- **Relative:** Uncle or aunt; first or second cousin; godparent; godchild; other person related by blood, marriage or legal action with whom the individual has a close personal relationship.

Once made aware of a conflict of interest, Minnesota Housing will make a determination before disbursing any further funds or processing an award Determinations could include

- Revising the contracting party’s responsibilities to mitigate the conflict
- Allowing the contracting party to create firewalls that mitigate the conflict
- Asking the contracting party to submit an organizational conflict of interest mitigation plan

- Terminating the contracting party's participation

Any person or entity (including its employees and affiliates) that enters into a contract with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all conflicts of interest through one of the communication channels described in section 1.07.

1.04.1 Federal Conflict of Interest Requirements

State and federal conflict of interest requirements differ, and Minnesota Housing business partners must comply with all requirements.

Minnesota Housing administers various programs using federal funds. Minnesota Housing requires that each of its external business partners (for example, administrators, borrowers, contractors, grantees or subrecipients) complies with all applicable federal conflict of interest standards. Specifically, no external business partner's employee, agent or consultant may participate in the selection, award or administration of a contract supported by a federal award if they have a real or apparent conflict of interest. Such a conflict of interest would arise when the business partner's employee, agent, consultant or any member of their immediate family, their partners, or an organization which employs or is about to employ any of these parties, has a financial or other interest in, or obtains a tangible personal benefit from, a firm considered for a contract. External business partner's employees, agents and consultants may neither solicit nor accept gratuities, favors or anything of monetary value from contractors or parties to subcontracts supported by a federal award. Minnesota Housing will not consider it a violation of this policy if the external business partner's employee, agent or consultant receives an unsolicited item of nominal value.

In addition, no external business's partner employees, agents or consultants "who exercise or have exercised any functions or responsibilities with respect to activities assisted with" funds from HOME Investment Partnerships (HOME), HOME American Rescue Plan (HOME ARP), Housing Opportunities for Persons with AIDS (HOPWA) or National Housing Trust Fund (NHTF) "or who are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or financial benefit from" a HOME, HOME ARP, HOPWA or NHTF-assisted activity "or have a financial interest in any contract, subcontract, or agreement with respect to the" HOME, HOME ARP, HOPWA or NHTF-assisted activity "or the proceeds from such activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter. Immediate family ties include (whether by blood, marriage or adoption) the spouse, parent (including a stepparent), child (including a stepchild), brother, sister (including a

stepbrother or stepsister), grandparent, grandchild, and in-laws of a covered person.”⁶ Violation of federal conflict of interest requirements by business partners, agents or consultants will result in appropriate actions by Minnesota Housing, including the potential termination of the relationship and additional contractual or other remedies. Violation of federal conflict of interest requirements may need to be reported to the federal government in appropriate circumstances.

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing relating to federal funds must avoid and immediately disclose to Minnesota Housing any and all conflicts of interest through one of the communication channels described in section 1.07.

A contracting party should review its contract and request for proposals (RFP) material, if applicable, for further requirements.

1.05 Assistance to Employees and Affiliated Parties

Any party entering into a contract with Minnesota Housing for the purpose of receiving an award or benefit in the form of a loan, grant, combination of loan and grant or other funding is restricted in issuing a loan, grant, combination of loan and grant or other funding to a recipient (“Affiliated Assistance”) who is also: (1) a director, officer, agent, consultant, employee or Family Member of an employee of the contracting party; (2) an elected or appointed official of the State of Minnesota; or (3) an employee of Minnesota Housing, unless each of the following provisions are met:

- The recipient meets all eligibility criteria for the program;
- The assistance does not result in a violation of the contracting party’s internal conflict of interest policy, if applicable;
- The assistance does not result in a conflict of interest as outlined in section 1.04;
- The assistance is awarded utilizing the same costs, terms and conditions as compared to a similarly situated unaffiliated recipient and the recipient receives no special consideration or access as compared to a similarly situated unaffiliated recipient; and
- The assistance is processed, underwritten and/or approved by staff/managers who are independent of the recipient and independent of any Family Member of the recipient. Family Member is defined in section 1.04.

A contracting party need not disclose Affiliated Assistance to Minnesota Housing. However, the contracting party must document and certify, prior to the award, that the Affiliated Assistance meets

⁶ See generally, HOME: [24 CFR 92.356](#); including any revisions by the Appendix to the HOME-ARP Notice as amended; HOPWA: [24 CFR 574.625](#); NHTF: [24 CFR 93.353](#). In limited circumstances, a conflict of interest could be waived via an exception request, in writing. For further information, see federal regulations at: HOME: [24 CFR 92.356](#); HOPWA: [24 CFR 574.625](#); NHTF: [24 CFR 93.353](#).

each of the provisions outlined above. This documentation must be included in the Affiliated Assistance file and must be made available to Minnesota Housing upon request. Affiliated Assistance that does not meet each of the provisions outlined above will be considered a violation of Minnesota Housing conflict of interest standards and must be reported by the contracting party through one of the communication channels outlined in section 1.07.

1.06 Suspension

By entering into any contract with Minnesota Housing, a contracting party represents that the contracting party (including its employees or affiliates that will have direct control over the subject of the contract) has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing's website for a list of [suspended individuals and organizations](#) (Go to mnhousing.gov, scroll to the bottom of the screen and select Report Wrongdoing, then select Suspensions from the menu).

1.07 Disclosure and Reporting

Minnesota Housing promotes a “speak-up, see something, say something” culture whereby internal staff must immediately report instances of fraud, misuse of funds, conflicts of interest or other concerns without fear of retaliation through one of the communication channels listed below. External business partners (for example, administrators, grantees or borrowers) and the general public are strongly encouraged to report instances of fraud, misuse of funds, conflicts of interest or other concerns without fear of retaliation using these same communication channels.

- Minnesota Housing's Chief Risk Officer at 651.296.7608 or 800.657.3769 or by email at MHFA.ReportWrongdoing@state.mn.us;
- Any member Minnesota Housing's [Servant Leadership Team](#), as denoted on Minnesota Housing's current organizational chart (Go to mnhousing.gov, scroll to the bottom of the screen and select About Us, select Servant Leadership Team); or
- [Report Wrongdoing or Concerns \(mnhousing.gov\)](#) (Go to mnhousing.gov, scroll to the bottom of the screen and select Report Wrongdoing).

1.08 Electronic Signatures

Minnesota Housing will use and accept e-signatures on eligible program documents subject to all requirements set forth by state and federal law and consistent with Minnesota Housing policies and procedures. The use of e-signatures for eligible program documents is voluntary. Questions regarding which documents Minnesota Housing permits to be e-signed should be directed to Minnesota Housing staff.

1.09 Fair Housing Policy

It is the policy of Minnesota Housing to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to Minnesota Housing programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, familial status, gender identity or sexual orientation.

Minnesota Housing's fair housing policy incorporates the requirements of Title VI of the Civil Rights Act of 1968; the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988; and the Minnesota Human Rights Act. Housing providers and other entities involved in real estate related transactions are expected to comply with the applicable statutes, regulations and related policy guidance. Housing providers should ensure that admissions, occupancy, marketing and operating procedures comply with non-discrimination requirements. Housing providers and other entities involved in real-estate related transactions must comply with all non-discrimination requirements related to the provision of credit, as well as access to services.

In part, the Fair Housing Act and the Minnesota Human Rights Act make it unlawful, because of protected class status, to:

- Discriminate in the selection/acceptance of applicants in the rental of housing units;
- Discriminate in the making or purchasing of loans for purchasing, constructing or improving a dwelling, or in the terms and conditions of real-estate related transactions;
- Discriminate in the brokering or appraisal of residential property;
- Discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- Discriminate in the extension of personal or commercial credit or in the requirements for obtaining credit;
- Engage in any conduct relating to the provision of housing that otherwise make unavailable or denies the rental of a dwelling unit;
- Make, print or publish (or cause to make, print or publish) notices, statements or advertisements that indicate preferences or limitations based on protected class status;
- Represent a dwelling is not available when it is in fact available;
- Refuse to grant a reasonable accommodation or a reasonable modification to a person with a disability;
- Deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions of membership or participation; or
- Engage in harassment or quid pro quo negotiations related to the rental of a dwelling unit.

Minnesota Housing has a commitment to affirmatively further fair housing for individuals with disabilities by promoting the accessibility requirements set out in the Fair Housing Act, which establish

design and construction mandates for covered multifamily dwellings and requires those in the business of buying and selling dwellings to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

Under certain circumstances, applicants will be required to submit an Affirmative Fair Housing Marketing Plan at the time of application, to update the plan regularly and to use affirmative fair housing marketing practices in soliciting renters, determining eligibility and concluding all transactions.

As a condition of funding through Minnesota Housing, housing providers are not permitted to refuse to lease a unit to, or discriminate against, a prospective resident solely because the prospective resident has a Housing Choice Voucher or other form of tenant-based rental assistance.

1.10 Minnesota Government Data Practices

Minnesota Housing, and any party entering into a contract with Minnesota Housing, must comply with the Minnesota Government Data Practices Act, Minnesota Statutes Chapter 13, as it applies to all data provided by Minnesota Housing under the contract, and as it applies to all data created, collected, received, stored, used, maintained or disseminated by the contracting party under the contract. The civil remedies of Minnesota Statutes Section 13.08 apply to the release of the data referred to in this section by either the contracting party or Minnesota Housing. If the contracting party receives a request to release the data referred to in this section, the contracting party must notify Minnesota Housing. Minnesota Housing will give the contracting party instructions concerning the release of the data to the requesting party before the data is released. The contracting party's response to the request shall comply with applicable law.

1.11 Prevailing Wage

Under certain circumstances, awards of Minnesota Housing funds may trigger state prevailing wage requirements under [Minnesota Statutes Chapter 177](#) or [Minnesota Statutes Section 116J.871](#). In broad terms, Minnesota Statutes Chapter 177 applies to an award of \$25,000 or greater for housing that is publicly owned. Minnesota Statutes Section 116J.871 applies to awards for non-publicly owned housing that meet the following conditions: (1) new housing construction (not rehabilitation of existing housing); (2) a single entity receives from Minnesota Housing \$200,000 or more of grant proceeds or \$500,000 of loan proceeds; or (3) allocations or awards of low-income housing tax credits, for which tax credits are used for multifamily housing projects consisting of more than ten units.

Minnesota Statutes Section 116J.871 sets out several exceptions to the applicability of prevailing wage including (1) rehabilitation of existing housing; (2) new housing construction in which total financial assistance at a single project site is less than \$100,000; and (3) financial assistance for the new construction of fully detached single-family affordable homeownership units for which the financial assistance covers no more than ten fully detached single-family affordable homeownership units.

Entities receiving funding from Minnesota Housing as described in this section shall notify all employers on the project of the recordkeeping and reporting requirements in Minnesota Statutes Section 177.30, paragraph (a), clauses (6) and (7). Each employer shall submit the required information to Minnesota Housing.

Questions related to submission of required information to Minnesota Housing may be directed to: mhfa.prevalingwage@state.mn.us.

All questions regarding state prevailing wages and compliance requirements should be directed to the Minnesota Department of Labor and Industry as follows:

Division of Labor Standards and Apprenticeship
State Program Administrator
443 Lafayette Road N, St. Paul, MN 55155
651.284.5091 or dli.prevwage@state.mn.us

If a contractor or subcontractor fails to adhere to prevailing wage laws, then that contractor or subcontractor could face civil and/or criminal liability.