MINNESOTA HOUSING

Minnesota Families Affordable Rental Investment Fund Program (MARIF) Procedural Guide

April 2017

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Introduction

The 2000 session of the Minnesota Legislature appropriated funds and authorized the Minnesota Housing Finance Agency (Minnesota Housing) to develop an affordable housing program for current and recent participants in the Minnesota Family Investment Program (MFIP). Minnesota Housing's authority to develop such a program is provided in 2000 Minnesota Laws, Chapter 488, Article 8, Section 1, Subd. 6, as amended by 2000 Minnesota Laws, Chapter 499, Sections 22 and 39, and Minnesota Laws, 2001 Special Session, Chapter 4, Section 5.

In response to this new appropriation, Minnesota Housing developed the Minnesota Families Affordable Rental Investment Fund (MARIF) program. The purpose of the program is to provide modest, decent and safe housing with rents affordable for current and recent MFIP participants.

The 2001 special session of the Minnesota Legislature appropriated additional funds for the MARIF program and made several changes to the program. The MARIF program has been modified to reflect these legislative changes.

During the initial development of the MARIF program, Minnesota Housing staff took into consideration the data compiled in the "Characteristics of Minnesota Family Investment Program Participants and Cases" published in December 1999 by the Minnesota Department of Human Services (DHS). Minnesota Housing also held focus group meetings throughout the state to gather input from for-profit and nonprofit developers, management companies, local units of government, service providers, county financial workers, job training counselors and current and recent MFIP participants.

Chapter 1 – Eligibility Criteria

1.01 Owner/Sponsor

Eligible applicants include individuals, nonprofit entities, for-profit entities, Minnesota cities, Minnesota Housing and Redevelopment Authorities, Indian tribes, cooperative housing corporations or joint powers boards established by two or more cities. Applicants should have experience in providing housing to low- and moderate-income individuals or families. The owner of the development must be a single asset entity and must have authority to enter into the loan agreements required by Minnesota Housing.

1.02 Buildings/Unit Type

Buildings: New construction or acquisition and/or rehabilitation of permanent rental housing and permanent supportive housing with a minimum of four units. Priority will be given to developments providing new affordable rental units.

Single family and duplex properties will be allowed in scattered site developments within a city or neighborhood with a minimum of four MARIF units.

Building Use: This program is intended for permanent rental housing and permanent supportive housing.

Level of Funding: It is allowable for MARIF units to receive 100 percent of their total development costs (TDC) from MARIF funds. Priority will be given to developments that leverage MARIF funds with other public, private or area employer contributions.

The calculation for MARIF funding will be done on a per room basis. For example:

Units	Rooms	Percent of Development	Total Development Costs
24 total units	136 total rooms	100% total	$2,000,000
4 MARIF units	18 MARIF rooms	13.2% MARIF	$264,000

The maximum allowable MARIF funding in this example would be $264,000.

Unit Type	Rental Rooms Per Unit
2 BR	4.5
3 BR	6.0
4 BR	7.0

Funding for general improvements to the property (e.g., roof, heating system, siding) will be determined based upon percentage of assisted units.

Minnesota Housing will review the cost reasonableness on a per-unit and total development cost basis. Minnesota Housing will also analyze the development and operations costs to determine that the amount of funds provided is not more than is necessary to make the development financially feasible.

Operating Subsidy: At Minnesota Housing's discretion, the development may be allowed to include up to a six month capitalized operating subsidy as part of the Total Development Cost (TDC).

Design and Construction Review: Because the program intent is to provide affordable housing over the long term (i.e., 30 years), Minnesota Housing expects that existing rental housing will be improved beyond a decent, safe and sanitary condition. This may include substantial rehabilitation that requires more than routine or minor repairs or improvements, and may vary in degree from extensive reconstruction to cosmetic improvements, in addition to curing accumulated deferred maintenance. After selection for funding, Minnesota Housing will perform a site inspection to determine if the proposed level of rehabilitation is adequate.

For all Minnesota Housing first mortgages, and those substantial deferred loans or grants that are awarded on a competitive basis, developers are strongly encouraged to seek Minnesota Housing architectural input at the earliest possible time. This will ensure that the developer's earliest design efforts are focused on meeting Minnesota Housing's qualitative housing objectives, and it will ultimately minimize time and money spent redesigning at a later date to meet these objectives.

Substantial rehabilitation may also include renovation, alteration or remodeling for the conversion or adaptation of a structurally sound property to the design and condition required for use as housing (e.g., conversion of a hotel, school, warehouse).

Depending upon the level of rehabilitation activity, Minnesota Housing may require an appropriate licensed design professional prepare the design and construction documents.

All construction activities must conform to the Uniform Building Code, Minnesota Building Code, and local codes and regulations. The more restrictive codes and regulations will prevail.

Ineligible improvements/costs include but are not limited to:

- Supportive services
- Installation of swimming pools, hot tubs, fireplaces or wood burning stoves
- Sweat equity for the borrower's own labor
- Work completed
- Materials purchased prior to commitment

1.03 Occupancy Requirements

Income Requirements: All MARIF units must be marketed to current and recent MFIP participants. If the owner is unable to find enough qualified current and recent MFIP participants to rent all the MARIF units, at least 60 percent of the MARIF units must be occupied by family households who at the time of application are current MFIP participants or recent MFIP participants. "Recent MFIP participants" means a family who left MFIP for reasons other than disqualification from MFIP due to fraud no more than 24 months prior to the family's application for tenancy in a MARIF unit, and whose income at the time of application is equal to or less than 160 percent of the federal poverty level for the family's size.

The remaining MARIF units must be occupied by family households whose income at the time of initial occupancy does not exceed 30 percent of metro median income (adjusted for families of five or more).

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160% of Poverty Guidelines

The poverty guidelines may be formally referenced as "the poverty guidelines updated periodically in the Federal Register by the U.S. Department of Health and Human Services under the authority of 42 U.S.C. 9902(2)."

Family Size	Poverty Guideline (Annual)	Poverty Guideline (Monthly)
1	$19,296	$1,608
2	$25,984	$2,165
3	$32,672	$2,723
4	$39,360	$3,280
5	$46,048	$3,837
6	$52,736	$4,395
7	$59,424	$4,952
8	$66,112	$5,509

* The fiscal year poverty guidelines are located at https://aspe.hhs.gov/poverty-guidelines

Note: The poverty guidelines listed on the HHS website normally are calculated at 100%. The MARIF poverty guidelines are multiplied by 160% of the threshold for program eligibility.

Economic Integration: Integration of economically diverse households is encouraged but not required.

There are no income limits under the MARIF program for non-assisted units in a mixed income development.

In some instances there may be additional income requirements due to other funding sources, including other Minnesota Housing mortgages or grants.

Minimum Term: The income and occupancy conditions for the MARIF units are in effect for the life of the 30-year loan.

Monitoring: The income and occupancy requirements will be monitored by Minnesota Housing for the length of the 30-year loan.

Initially, for acquisition and/or rehabilitation, the borrower will be required to contact each household prior to mortgage commitment and disclose his/her income on a Tenant Income Verification form. Household incomes for all MARIF units will be reviewed for compliance.

As MARIF units become vacant, incomes of new households occupying those units will be verified and reviewed on an annual basis as to their compliance with the requirements of this program.

1.04 Rent Requirements

MARIF Rents: The approved rent amount is considered to be the gross rent. Utility allowances must be reviewed and subtracted out accordingly (refer to Utility Allowances). Rent increase requests must follow guidelines outlined in Chapter 4 – Management and Operations.

For tenants who use a tenant-based subsidy, MARIF rents may be set at the Fair Market Rent (FMR) for the applicable jurisdiction. Tenants may use a tenant-based subsidy (e.g., Section 8 vouchers) to pay their rent, up to the FMR. Tenants without tenant-based subsidy will pay the greater of 30 percent of gross income or $400.00 per month for a two-bedroom unit, $450.00 per month for a three-bedroom unit and $475.00 for a four-bedroom unit. Income recertification will occur annually on the anniversary of the move-in date, and tenant rents will be adjusted accordingly. One interim recertification will be allowed annually, in which tenant rent can be lowered to reflect reduction in tenant income.

In a 100 percent MARIF development, if a tenant's income increases, his/her rent will increase to the equivalent of 30 percent of his/her gross income, up to the FMR. At the point at which an annual recertification indicates the tenant portion of rent is equivalent to the FMR, he/she will receive a lease renewal and letter informing him/her that upon lease expiration, if his/her income remains the same or increases, he/she is encouraged (but not required) to move into home ownership or unsubsidized housing as he/she secures stable employment and achieves self-sufficiency.

In the case of a market rate development with MARIF units, if a MARIF tenant's income increases, his/her rent will increase to the equivalent of 30 percent of his/her gross income, up to the market rate rents. Rents may increase above the FMR; a MARIF unit will be considered a market rate unit upon reaching the comparable market rate rents. Should this occur, the next available vacant unit must be rented to a MARIF-applicant.

> **Example #1:** In a market rate development with a Fair Market Rent (FMR) of $684 and a market rate rent of $700, a MARIF tenant residing in a two-bedroom unit with income upon application of $14,560 would pay $400 per month for rent (although 30 percent of their income is only $364). Upon their annual certification, if their income increased to $18,720, they would pay $468 for the next year (30% of their income), and this pattern would continue. The rent would be recalculated annually and may increase beyond the FMR but would be capped at the market rate rent of $700. If the tenant begins paying the market rate rent, the unit would be designated a market rate unit, and the next available unit would become a MARIF unit.
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> **Example #2**: A tenant without a voucher or other tenant-based subsidy lives in a three-bedroom unit in a 100 percent MARIF development. The MARIF rent is $450 and the FMR is $680:

	Tenant Income/rent	
Year 1	$14,000/$450	Tenant pays $450 because that is the minimum rent for a three-bedroom
Year 2	$19,000/$475	Tenant pays $475 because it is 30% of their income
Year 3	$18,000/$450	$450 is both the minimum rent and 30% of their income
Year 4	$24,000/$600	$600 is 30% of income
Year 5	$29,000/$680	$725 is 30% of income; however, rents are capped at the FMR of $680

Rents Based on Management and Operating Expenses: Based on Minnesota Housing approval, MARIF rents may be structured to meet the monthly operating expense budget for each unit; however, rents must not exceed 30 percent of 30 percent of the metro median income (adjusted for families of five or more).

Maximum Gross Rents: In a 100 percent MARIF development, the maximum gross rents cannot exceed FMR.

In a market rate development with MARIF units, the maximum gross rents for MARIF units may not exceed the market rate rent. Additionally, the gross rent for the MARIF units may not exceed the FMR until 30 percent of tenant income exceeds the FMR.

Utility Allowances: Tenant paid utility allowances are to be reviewed and subtracted accordingly. For example, if the rent for a two-bedroom unit is $400.00 and the utility allowance is $45.00, the resident will pay $355.00 for rent and use the remaining $45.00 to pay their utilities. Acceptable utility allowances are those provided by public housing authorities on a Section 8 utility allowance schedule.

Monitoring: Rent requirements will be monitored by Minnesota Housing for the length of the 30-year loan.

Chapter 2 – General Financing Characteristics

2.01 Interest Rate and Term

The first mortgage or subordinated loan with an interest rate, not to exceed 1% per annum with interest and principal due and payable at the end of the 30-year term.

The interest rate on the loan may be adjusted in order to allow these funds to be utilized with other sources of funding, such as Low-Income Housing Tax Credits. In this instance, interest and principle will be due and payable at the end of the 30-year term.

Funds may also be awarded in the form of a subsidy repayment agreement. To ensure the long-term affordability of projects funded under the program, the subsidy repayment agreementrequires repayment to Minnesota Housing unless the developer complies with rent and other program restrictions for the 30-year MFIP affordability period.

The loan or a subsidy repayment agreement will be considered non-recourse debt.

2.02 Transfers of Ownership/Prepayment

Transfers of Ownership: The mortgage may be assumed contingent upon all of the following:

- Minnesota Housing review and approval of the proposed ownership entity
- Assumption of all contractual obligations with Minnesota Housing
- Payment of a fee equal to the greater of 1/2 of 1 percent of the outstanding mortgage amount or $1,500

Prepayment: Prepayment is allowed under the MARIF program; however, the affordability requirements required by the MARIF statute will remain in place for 30 years even if the loan is prepaid.

2.03 Return on Equity

Developer's return on equity is defined as follows:

Limited Return: Minnesota Housing statutes currently allow a maximum return of 10 percent based on actual developer equity.

No Limit on Return: Under this program, Minnesota Housing statutes allow that entities undertaking a development consisting of the rehabilitation of an existing rental housing property are not subject to a limited return.

2.04 Minnesota Housing Fees

Fees are submitted at the following stages:

- **Application Fee:** None.
- **Financing Fee:** None
- **Annual Servicing Fee:** None.
- **Assumption Fee:** Greater of 1/2 of 1 percent of the outstanding mortgage or $1,500

2.05 Economic Integration

If the development is mixed income, the MARIF units float among the others and will not be designated units.

2.06 Property Taxes

A tax bill adopted by the Minnesota Legislature in 2005 made significant changes to the property tax classification rate for qualifying low-income rental properties. For more information, visit our website or contact Steve O'Brien at 651.297.4065.

2.07 Environmental Review

The borrower will be required to order and pay for a Phase I environmental review, including lead and asbestos testing, after selection but prior to commitment. The cost of the review is mortgageable.

2.08 Payment and Performance Bonds

Where Minnesota Housing is providing construction financing, the contractor must submit 100 percent Payment and Performance Bonds (Dual Obligee) or, at Minnesota Housing's discretion, a Completion Assurance Letter of Credit.

2.09 Payment During Construction

Minnesota Housing will disburse mortgage funds no more than once per month for construction progress payments through a title company. Construction costs, including contractor's overhead and profit, are funded on a basis of percentage complete, less a retainage, which typically is 10 percent.

2.10 Miscellaneous

In general, all developments must submit, at a minimum, the following:

- Evidence of site control
- Evidence of proper zoning
- Title insurance policy
- Assurance that the proper utilities are available to the site
- Evidence of city or other financial contributions
- Market and/or other supporting documentation as required for this program
- Instruments under which the borrower was created (e.g., Articles of Incorporation, By-Laws, Partnership Agreement)
- Certificate of Good Standing

Chapter 3 – Management and Operation

3.01 Management and Operation Guidelines

Rent Increases: Increases in gross rent levels for the development must be made in writing to Minnesota Housing. The request may not occur more than once annually and must comply with the terms of the lease. The rate of increase generally may not exceed the amount needed to meet the monthly operating expense budget of each unit. To request a rent increase, submit a Request for Rent Increase form and fax a signed copy to Judith Leatherwood at 651.296.8149. Please refer to Section 1.04 for additional information on tenant rents.

Eligibility: To be eligible for occupancy in a MARIF unit, an applicant must be a current or recent MFIP participant or have a household income at the time of initial occupancy of no more than 30 percent of metro median income as determined by HUD. For current MFIP participants, the applicant's financial worker must verify MFIP participation in writing. Recent participant is defined in Section 1.03. Please refer to Occupancy Requirement Section 1.03 for specific income requirements.

Initial and Annual Income and MFIP Participant Certifications: Re-certifications will be conducted by the owner/agent on an annual basis. Verifications must generally be made by a third party, such as the applicant/tenant's financial worker or employer.

In addition to the annual certification, each tenant not receiving Tenant-Based Assistance (TBA) will be permitted one emergency recertification every 12 months, beginning on his/her move-in date, in which the tenant rent can be lowered to reflect reductions in tenant income.

Utilization of Units: Units should be rented to family sizes appropriate to the unit size, with a ratio of at least one person per bedroom. If during the course of tenancy a family size changes, they may request in writing to the agent, to transfer to another unit or be placed on a waiting list for such transfer. In the event of a decrease in family size, the resident may be required to move to the next available suitably sized smaller unit, should a smaller unit be available in the development.

Marketing: The owner/agent must demonstrate that they have established links with city and county social services, employment services, schools, HRAs, etc. The owner/agent will submit a marketing plan for Minnesota Housing staff review and approval. All MARIF units must be marketed to current and recent MFIP participants.

Selection Criteria: Owner/agents are required to submit a Resident Selection Plan to Minnesota Housing for review and approval.

Screening: Minnesota Housing requires the owner/agent to provide screening criteria and suggests (but does not require) that tenant standards be relaxed. For example, an unlawful detainer (UD) may be accepted if the UD was due to non-payment and the rent was too high for the tenant to afford, or a UD may be accepted for poor credit for the same reasons. A UD due to unit damage would not necessarily need to be relaxed. The owner/agent is encouraged to conduct rental, credit and criminal checks. If screening is relaxed, the owner/agent will need to define the screening criteria and apply it consistently for every applicant, not just by exception.

Monitoring/Reporting: Minnesota Housing actively monitors developments it finances over the life of the mortgage. This includes, but is not limited to, monitoring tenant incomes, rents, affirmative action and equal opportunity requirements, and monthly and/or annual operating reports.

Leasing: Leases shall be for a minimum of six months and shall not exceed one year. Minnesota Housing must review and consent to the proposed lease form.

Security Deposit: A security deposit will be required from the applicant in an amount equal to 30 percent of monthly gross income or the development's standard deposit amount, whichever is less. If the security deposit is paid by a government agency, nonprofit group, etc. and not by the applicant, then the owner/agent may collect the standard deposit amount.

3.02 Reporting Requirements

To verify that the housing remains in compliance with the requirements of this program, the owner/agent must certify that the occupancy and rent requirements outlined in Sections 1.03 and 1.04 of this Procedural Guide are met.

To verify owner eligibility, the owner/borrower will be required to certify that the limited-return requirements contained in this Procedural Guide are being complied with.

Minnesota Housing will conduct periodic reviews to ensure compliance with the fair housing requirements outlined in this Procedural Guide.

Minnesota Housing will require demographic data on the tenants in funded units to be compiled and provided to Minnesota Housing for program evaluation.

Minnesota Housing may request annual submission of management and operating budgets and rent roll.

Minnesota Housing will conduct both physical and file inspections of the development. The physical inspection will involve inspecting the grounds, common areas, vacant units and a sample of occupied units. Staff will review the site files to verify that third party income verifications have been completed, that rent was calculated correctly, that the tenant was within income and participation guidelines (either a current or recent MFIP participant) upon application, and that they are currently within the guidelines, or if not, that they have been notified in writing that they are now outside of guidelines and are encouraged (but not required) to move.

Minnesota Housing may require monthly operating reports for developments that receive first mortgage financing and annual reports from developments that receive deferred financing.

Minnesota Housing will require an annual submission of a summary of tenant qualification data including unit number, resident name, income and rent.

Minnesota Housing may require an audit or financial review/compilation.

Chapter 4 – Contract Compliance and Equal Opportunity

4.01 Policy

It is the policy of Minnesota Housing to practice affirmative action to provide equal opportunity in all of our projects, programs, and other endeavors. Minnesota Housing's goal is to achieve a client and recipient mix that is representative of the people who live in our state and our communities so that all employment and contractual benefits that develop as a result of our programs will be shared by all Minnesotans. This policy applies to all Minnesota Housing employees and Minnesota Housing's external partners.

4.02 Purpose

The purpose of this policy is to make Minnesota Housing's commitment to act affirmatively to achieve equal opportunity in all facets of its operation, clear to both internal staff and outside parties with whom we do business.

4.03 Goals

Our goal is to ensure minority and female contractors and subcontractors equal access to business opportunities on Minnesota Housing financed projects and to encourage the presence of minorities and women at all levels, including on the staffs of the program participants having contractual agreements with Minnesota Housing. Minnesota Housing's goal is to ensure that the workforces on the projects and programs we finance reflect demographically the area in which they are located. These goals will apply for the length of the contract or the life of the mortgage. Minnesota Housing, at its discretion, may set numerical or percentage goals dependent on the location and size of a given project. Current goals will be determined by staff based on the location of the project.

4.04 Requirements

Minnesota Housing is required to comply with all applicable local, state, and federal laws. These requirements are passed on to everyone that Minnesota Housing does business with, either by contractual agreement or as a Minnesota Housing policy.

4.05 Sanctions

Minnesota Housing has the contractual authority to demand full payment of any loan or grant, stop proceeding with any project at any stage, and cease to do business with any entity or individual that fails to follow its affirmative action policies or fails to meet its/his/her contractual equal opportunity obligations.

Chapter 5 – 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 the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988, as well as the Minnesota Human Rights Act. Housing providers 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.

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

discriminate in the selection/acceptance of applicants in the rental of housing units;

discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;

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;

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 housing providers to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

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.

Chapter 6 – Allocation of Funds

In an attempt to distribute funds statewide, the following allocation plan has been established with the initial program development.

The MARIF legislation requires that the funds be allocated "within a city, county or region [and] reflect the number of MFIP households residing within the city, county or region compared to the statewide total of MFIP households."

Chapter 7 – Program Contact

For questions, contact Tina Rogney, at 651.296.9831 or the Housing Development Officer (HDO) at 651.297.3294 or 800.657.3647.