MINNESOTA URBAN AND RURAL HOMESTEADING (STATE FUNDED) PROGRAM

PROGRAM CONCEPT

OBJECTIVE

The MURL program provides homeownership opportunities to homebuyers who will assist in stabilizing declining neighborhoods. The program is designed to arrest or prevent the spread of blight through the preservation of existing, dilapidated single family housing within a designated area. Under the program, Administrators are provided grant funding to acquire and rehabilitate such housing. Rehabilitated homes are sold to at-risk homebuyers via an interest-free contract for deed. Homebuyers also agree to follow a "good neighbor" policy.

ELIGIBLE PROGRAM APPLICANTS

- A political subdivision,
- A nonprofit entity as defined by Minnesota Housing,
- A housing and redevelopment authority, or
- Other organization designated by MHFA, which has as a primary purpose the provision or development of affordable housing to low and moderate income persons or households in Minnesota.

APPLICATION PROCESS

- The applicant completes the MURL application and submits it to Minnesota Housing by the last Friday of each month.
- A review committee will review the applications to determine if they meet program guidelines. Successful applications will be brought to Board for approval on a monthly basis.
- Upon execution of the Participation Agreement, those selected will become MURL Administrators and will receive a two year contract term.
- Upon contract expiration, MURL Administrators will have to reapply for continued participation in the Program. Reapplication all Minnesota Housing to determine if proposed continued implementation of MURL program by Administrator conforms to current Agency priorities and guidelines.

PIPELINE

- Rather than receiving a specific dollar set-aside for each Administrator, approved Administrators will access a pool of funds through a pipeline process.
- Funding will be allocated to two pools of funding:
    - 40% to the Twin Cities Metro Area (7 County); and
    - 60% to Greater Minnesota.

- Administrators will be allowed to have a maximum of three homes in the pipeline at any given time.
- Administrators will have access to the pipeline for two years as long as there are funds in the pool and they remain in good standing.
- Funds will be committed and disbursed through Single Family Mortgage Online System (SFMOS) on a per property basis.

FUNDING

- Funds will be granted to Administrators on a per property basis based on the purchase price of the home, the estimated development cost and a 10% developer's fee.
- The total development cost of acquiring and rehabilitating the Eligible Property, including closing costs, development costs, and all other costs associated with the development of an Eligible Property must be no greater than an amount equal to 90 percent of the home sale price limitation established for the agency's home mortgage programs for limited unit developments, currently:
    - $268,313 in the Twin Cities Metro Area; and
    - $213,328 in Greater Minnesota.
- Commitments are valid for 720 days (24 months). All commitments will be automatically cancelled at day 721.
- MURL Program Grants will be disbursed in two (2) disbursements to the Administrator.
    - Upon gaining a commitment via SFMOS, 75% of the Grant amount.
    - Upon gaining Purchase Approval, the remaining Grant amount will be disbursed taking into account any Grant amount adjustments due to changes between the estimated and actual development costs.

HOMEBUYER REQUIREMENTS

- Homebuyers must be first-time homebuyers.
- Homebuyers must be At-Risk, which is a homebuyer who is homeless, receiving public assistance or otherwise lacking the ability to meet mortgage industry underwriting standards for traditional mortgage financing.
- Homebuyer must qualify also qualify as low income at the time of purchase. For purposes of this section, "Low Income" shall be defined as 60% of the greater of state or area median income.
- Targeting to emerging market households must be addressed at time of application and is strongly encouraged.
- Homebuyer must occupy the Eligible Property as a Principal Residence. If the homeowner no longer resides in the property as their Principal Residence prior to the Contract for Deed being paid in full, the Administrator must take appropriate steps to cancel the contract.
- The Homebuyer's income is the expected income for the next 12 months after the date of application of all residents age 18 and over of the Homebuyer's household from whatever source derived, with the exception of incidental income from after

school employment of persons under 18 years of age, and before taxes or withholdings less deductible medical expenses allowed.

- The Homebuyer's income must be sufficient enough so that on the date of execution of the Contract for Deed at least 25 percent of that income will adequately pay monthly installments of real estate taxes, hazard insurance premiums and a principal reduction.
- The Administrator must annually, and when household income increases or decreases by ten percent (10%) or more, re-verify and recalculate Homebuyer's income so that the monthly payments under the Contract for Deed may be adjusted with any changes in income.
- Qualified homebuyer education counseling is required for Homebuyers prior to signing a Contract for Deed to purchase an Eligible Property. Financial counseling will help to ensure that the Homebuyer has developed a manageable budget to determine if they can adequately meet the minimum payment requirements.

DESIGNATED AREA

- Each Administrator, at time of application, shall specify a Designated Area from which Eligible Properties will be acquired and rehabilitated.
- The economic and housing market conditions in the Designated Area must be described at time of application.
- Administrator must also indicate whether there are targeted areas in the Designated Area, especially areas affected by foreclosure, where the use of MURL can help reduce blight and stabilize declining neighborhoods.
- The Designated Area, or the targeted areas within Designated Area, must be defined in a manner to allow for MURL activity to be concentrated enough to have a positive impact.

PROPERTY ELIGIBILITY

- Eligible properties must be in Designated Area.
- Eligible properties must be a single family residential property that is vacant, condemned, abandoned, or identified as desirable for purchase by the Administrator which, if rehabilitated or replaced, will prevent or arrest the spread of blight.
- Ineligible properties are properties containing two or more units, condominiums, townhouses within a planned unit development, mobile homes, properties intended to be an investment property, properties intended for recreational homes, properties where a portion of the residence is specifically designed for commercial use, or properties where more than 15% of the total area of the residence is used in a trade or business except for in-home day care facilities in which case no more than 49% of the total area is be used.
- An attorney's legal title opinion or a title insurance policy must be acquired to show the Administrator will have clear and marketable title.
- Sales Price to the Homebuyer shall be the market value, which shall be determined by an appraisal conducted by a qualified appraiser either after completion of

rehabilitation or before rehabilitation while taking into consideration the effect of anticipated rehabilitation on value.

REHABILITATION ELIGIBILITY

- Each rehabilitation improvement must be a permanent general improvement made in compliance with all applicable state, county and municipal health, housing, building, fire prevention, and housing maintenance codes, or other public standards.
    - In areas of the state where there is a local building code or the state building code has been adopted, a licensed building official/inspector must provide a certificate of occupancy or a final inspection report.
    - In areas of the state where there is not a local building code or the state building code has not been adopted, the Administrator must ensure that rehabilitation improvements are completed by licensed contractors.
- At the time of sale, all rehabilitation improvements must, at a minimum, bring the Eligible Property to Housing Quality Standards as established in 24 CFR Part 982.401.
- Improvements must be of a similar quality to similar unit types in the Designated Area as the Eligible Property.
- Ineligible improvements include construction and reconstruction of garages, "Luxury" improvements (swimming pool, outdoor hot tub, etc), improvements that do not become a permanent part of the real property such as freestanding refrigerators and stoves which are paid with MURL Program funds and improvements for commercial use.
- At least two competitive bids should be sought for the proposed improvements. If only one bid is received, written documentation relating to the cost reasonableness of the improvements must be provided.
- General contractors are required to execute a Sworn Construction Statement. Administrators are required to obtain Lien Waivers from the general contractor as well as all subcontractors and material suppliers.
- All Eligible Properties constructed before January 1, 1978 must follow Minnesota Housing's Lead-Based Paint guidelines.
- Development Costs may include, but are not limited to, the following items:
    - Architectural, engineering or related professional services required to prepare plans, drawings, specifications, or work write-ups;
    - Eligible rehabilitation improvements;
    - Costs to process the financing for a project, such as private lender origination fees, credit reports, fees for the title evidence, fees for recordation and filing of legal documents, building permits, attorney fees, private appraisal fees and fees for an independent cost estimate and builders or developers fees;
    - Costs of any project audit that Minnesota Housing may require with respect to the development of the project;
    - Costs to provide information services such as affirmative marketing and fair housing information to prospective homeowners; and

    - Staff and overhead costs directly related to carrying out a project, such as the preparation of work specifications, loan processing, inspections, and other services related to assisting potential owners and homebuyers.

CONTRACT FOR DEED

- Eligible Properties are sold by the Administrator using a Contract for Deed.
- The Contract for Deed is to be interest-free and have a term not to exceed 30 years.
- The Homebuyer must pay the balance of the Contract for Deed in full at the end of the term stated in the Contract for Deed.
- A Homebuyer has the right to fully or partially prepay the Contract for Deed at any time without penalty.
- Closing costs and prepaid expenses are not allowed to be paid "out of pocket" by the Homebuyer; they should be included in the Contract for Deed amount.
- Homebuyer failure to pay the monthly payments required under the Contract for Deed shall be considered a Default under the Contract for Deed.
- At Administrator's discretion and upon approval by Minnesota Housing, Forbearance can be granted, which shall be for three months, or such other time agreed upon by the Administrator and the Homebuyer. If at the end of the period of Forbearance the Homebuyer is still unable to pay the required payments, the Administrator may either cancel the Contract for Deed or extend the Forbearance.
- A Homebuyer shall, at their expense, procure and maintain hazard, liability and, if necessary, flood insurance in amounts reasonably satisfactory to the Administrator and naming the Administrator as an additional insured.
- A Homebuyer shall not, without first obtaining the Administrator's written approval, make any improvements to the Eligible Property in an amount in excess of $2,000.00, or create or permit to accrue liens or adverse claims against the Eligible Property which will constitute a lien or claim against the Administrator's interest in the Eligible Property.

RESALE RESTRICTIONS

- For a period of 15 years, homes sold in the MURL Program are to remain affordable to Low Income Households. For purposes of the resale restriction, "Low Income" shall be defined as 60% of the greater of state or area median income.
- The 15 year period is enforced through the Declaration of Covenants Running with the Land in a form developed by Minnesota Housing.
- The Declaration of Covenants Running with the Land must be filed with the County Recorder's Office prior to the filing of the Contract for Deed, but the filing cannot occur more than 6 months before the execution and filing of the Contract for Deed with the Homebuyer.
- During the 15 year resale restriction period, the Administrator shall have the right of first refusal.
- If the Homebuyer rents, assigns, transfers or offers to sell the Eligible Property, the Administrator has the option to repurchase the Eligible Property at a Fair Market Sales Price, as determined by a qualified appraisal. This option will not apply to a

transfer of property to a surviving joint tenant or to an heir, if any, by reason of death of the Homebuyer.

- The right of first refusal allows the Administrator during resale restriction period to facilitate Contract for Deed financing for a new Homebuyer in order to meet the income requirements of the Declaration of Covenants Running with the Land.

SERVICING REQUIREMENTS

- Administrator shall service, or provide for the servicing of, the Contracts for Deed. In the servicing of the Contracts for Deed, the Administrator shall be responsible for:
    - The collection of all payments due under the Contract for Deeds;
    - Making all hazard insurance premium, real estate tax and assessment payments including any escrowing for such payments;
    - Verifying the household income of Homebuyers; and
    - Conducting at least annual inspections of the Eligible Property covered by the Contract for Deed in order to insure that such property is being properly maintained.

REVOLVING FUND

- The Administrator shall repay to Minnesota Housing, without interest, all Grant funds.
- Repayment of Grant funds to Minnesota Housing may be deferred if the Administrator establishes a Revolving Loan Account into which all Contract for Deed repayments, sales proceeds or other recaptured Grant funds must be deposited.
- If the Administrator is in full compliance with the MURL Program, then it may use Revolving Loan Account funds to acquire, rehabilitate and sell additional Eligible Properties following MURL Program guidelines.
- On an annual basis, 10% of the monthly balance received from principal payments in the Revolving Loan Account may be used to pay for any MURL Program related administrative costs incurred during that program year.

DOCUMENTATION REQUIREMENTS

- Administrator must retain any and all documents (including compliance with Minnesota Housing program guidelines) as may be required, including, but not limited to:
    - Copy of purchase agreement and settlement statement of Eligible Property by Administrator;
    - Copy of deed showing ownership of Eligible Property by Administrator;
    - Written verification of clear title;
    - Records for all rehabilitation improvements including Scope of Work, bids and estimates, Sworn Construction Statement, lien waivers, change orders and completion certificates;
    - Evidence that rehabilitation work meets state or local building code;
    - Records the demonstrate compliance with the lead-based paint requirements;

    - Copy of Applicant Tracking Form;
    - Copy of Homebuyer Application;
    - Evidence that Tennessen and Data Privacy Disclosure was provided to Homebuyer;
    - Written verification of first time homebuyer status;
    - Proof of homebuyer education completion by Homebuyer;
    - Written verification of all major sources of income;
    - Copy of Contract for Deed with Good Neighbor Policy;
    - Copy of Declaration of Covenants;
    - All documentation relating to the use of the Revolving Loan Account.
- Annual reporting will be required to track Revolving Loan Account balance and MURL portfolio information for each Administrator.

PROGRAM CONTACTS: 800-710-8871 OR 651-296-8215

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