AMORTIZING FIRST MORTGAGES

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

Program Overview

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

Application Process

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

Lending Terms

Eligible Properties:

Must qualify under project selection criteria found in the LMIR and FFCC Guide. Generally, properties with less than 24 housing units are not financially feasible.

Loan Purpose:

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

FFCC: Deferred loans at low or no interest that may be used in conjunction with LMIR first mortgage loans as a mechanism to reduce the overall interest rate to the development.

Funding Sources:

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

- New construction or acquisition/rehabilitation of family and workforce housing developments.
- Acquisition/rehabilitation of existing housing, including developments currently federally assisted.
- Refinance of existing housing.

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

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

FFCC: Funded through the Housing Affordability Fund; a Minnesota Housing generated, non-federally tainted resource.

HUD Risk-share:

LMIR loans will be insured through HUD's Risk-sharing Program (Risk-share). HUD's insured portion will be either 50 percent in the Level I program or up to 90 percent in the Level II program. The loan will typically be insured upon construction completion; therefore, Davis Bacon federal wage requirements generally do not apply.

Loan Parameters:	**Income Limits**
	• At a minimum, 40 percent of the units occupied by households whose income is 60% or less of Multifamily Tax Subsidy Projects (MTSP) (adjusted for family size) or 20 percent of the units occupied by households at 50% or less of MTSP (adjusted for family size).
	• 25 percent of the units may have unrestricted incomes.
	• The balance of units for tenants with incomes equal to or less than 100% of the greater of area or statewide median income as determined by HUD.
	• Developments financed with multifamily residential bonds must maintain the income and rent limits as long as the mortgage is outstanding, or 15 years, whichever is longer.
	
	Rent Levels
	The rent levels must be marketable based on the incomes served, but at a minimum:
	• 40 percent of units affordable to households at 60% of MTSP; or 20 percent of units affordable to households at 50% of MTSP.
	• The balance of units with rents at Minnesota Housing determined market.
	Refer to the LMIR and FFCC program guide that can be found on Minnesota Housing's website for additional details.
	
	Debt Coverage Ratio (DCR)
	• Minimum DCR of 1.11-1.20 as determined by Minnesota Housing; and
	• Must maintain a breakeven cash flow for a minimum of 15 years on a proforma basis.
	
	Maximum Loan to Cost (LTC)/Loan to Value (LTV)
	Level I HUD Risk-share – 50 percent insured
	• LTC/LTV must not exceed 87 percent
	Level II HUD Risk-share – over 50 percent insured
	• In accordance with HUD Handbook 4590.01, paragraph 2-4C(2) and Mortgagee Letter 2010-21:
	    • New construction/substantial rehabilitation, LTC must not exceed 87 percent.
	    • For existing affordable properties, LTC must not exceed 85 percent.

Additional Tax-Exempt Bond Requirements:	Refer to Minnesota Housing's Tax Exempt Bonds Informational Guide for more information on tax-exempt bond requirements.
Return on Equity:	Maximum 15 percent based on actual developer equity. No distributions for nonprofit owned developments, unless the non-profit is the managing general partner in a tax credit development, in which case the maximum distribution is 15 percent of initial equity.
Term and Amortization:	**LMIR**: Fully amortizing, fixed rate loans that may have a 30-year, 35-year, or 40-year term. A 30 or 35 year term may be considered for developments involving rehabilitation or refinance, and a 40 year term may be considered for new construction. **FFCC**: Co-terminus with the accompanying LMIR loan and will be due and payable upon prepayment or maturity of the LMIR loan. FFCC loans will be in second lien position behind the LMIR loan. Minnesota Housing may at its sole discretion require a percentage of cash flow be repaid annually.
Borrower:	Single asset entity
Recourse:	All monetary obligations must be guaranteed, including operating cost shortfalls and debt service, until achievement of DCR of at least 1.11 for three consecutive months (based on actual collected revenue, less underwritten effective gross expenses). Thereafter, all monetary obligations except principal and interest for the life of the loan. Construction completion guarantees are required during construction.

Interest Rate:	**LMIR**: The interest rate will be fixed for the full term of the LMIR loan. • LMIR loans funded by Housing Investment Fund: For loans selected through the RFP, rates will be set prior to selection and locked for one year. The interest rate on an open pipeline LMIR loan will be determined upon receipt of a signed loan application and will be held for a period of six months to allow for loan closing. • LMIR loans funded by bond proceeds: Rates are based on market rates at the time of the closing of the bond issuance, plus a spread based on the size of the loan. **FFCC**: Loans are generally made with an interest rate of 0 percent.
Prepayment and Assumption:	10 year lockout; prepayment in full any time after 10 years only with Minnesota Housing approval. Penalties or fees may apply depending on funding source.
Cash Out:	Generally not allowed
Repairs Qualifications:	Construction or rehabilitation to a standard that when properly maintained, remains decent, safe and affordable for the duration of the financing compliance period. Refer to the Building Standards webpage for full design/construction information.
Third Party Reports:	Third party reports may include, but are not limited to: appraisal, environmental, radon, market study, and physical needs assessment, as required.

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

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

Questions

Susan Thompson, Program Manager: 651.296.9838 or susan.thompson@state.mn.us.