MINNESOTA HOUSING

Multifamily Underwriting Standards

April 2017

The Minnesota Housing Finance Agency (Minnesota Housing) Multifamily Underwriting Standards are current as of the date on the cover page. These Standards reflect Minnesota Housing's general approach to underwriting, but they are not meant to be comprehensive, nor are they meant to address every possible situation. If you have a question as to how the standards will apply to a particular project, it is best to consult Minnesota Housing early in the development process. Minnesota Housing will update the standards as appropriate at the sole discretion of Minnesota Housing.

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Chapter 1 – Terms

The Minnesota Housing Finance Agency (Minnesota Housing) incorporates the following terms and definitions when working with external partners.

1.01 Owner

An Owner is an entity or person who holds title to the real property.

1.02 Borrower

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

A Borrower must be a single asset entity in order to obtain a nonrecourse amortizing first mortgage or nonrecourse deferred loan. In addition, Minnesota Housing's FHA Risk Share first mortgage and deferred loan programs require that Borrowers be Eligible Mortgagors as defined in Minnesota Statute 462A.03, subdivision 13. For the purposes of Minnesota Housing Multifamily Underwriting Standards, 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 percent of the initial capital contribution (or 1.5 percent of TDC absent an initial capital contribution)
  - Returns exceeding 15 percent are transferred to a residual receipts fund and may be used for Minnesota Housing-approved project improvements

Loans to multiple asset entities will be limited to deferred loans and will be fully recourse to the Borrower and Guarantor(s).

1.03 Sponsor

A Sponsor is an individual, legal entity, or nonprofit board of directors that exercises control and decision-making authority over the project.

All loans and funding awards require full Sponsor credit reviews, including submission of the Minnesota Housing Qualification of Sponsor (Form 203B) and all related requested materials. Sponsor(s) must collectively demonstrate acceptable Multifamily housing experience and financial capacity to guarantee performance as described in 1.04 below.

1.04 Guarantor

A Guarantor is the entity or individual who signs the Guaranty. Guarantor(s) must collectively demonstrate acceptable financial capacity to guarantee performance as described below.

Completion and Repayment Guaranty:

- For Borrowers receiving Housing Tax Credits (HTC) and fist mortgages
- Guarantees:

  - Construction completion
  - Debt service payments until the development has achieved 1.11 debt service coverage (assuming stabilized expenses) for three consecutive months
  - Operating cost shortfalls for the term of the loan

Minnesota Housing reserves the right to request a guarantee of construction completion from the Developer (Section 1.06 below), regardless of its affiliation with the Sponsor(s).

1.05 Tribal Nation Guarantor

Both amortizing and deferred loans to projects located on tribal land are fully recourse or must be guaranteed by the tribal government in the form of a tribal council resolution addressing:

- Construction completion
- Operating cost shortfalls
- Debt service payments

1.06 Developer

The Developer is typically a separate legal entity from the Borrower or Guarantor(s) who may complete any or all of the following tasks for a project:

- Submits the tax credit or funding application(s) on behalf of the Borrower
- Submits the Minnesota Housing Qualification of Developer (Form 203A) and all related requested materials
- Receives a Developer Fee, if any, from the Owner
- May defer a portion of the Developer Fee as a receivable from the Owner to close funding gaps as needed
- Is a party to a Development Services Agreement or contract with the Owner
- Incurs pre-development costs on behalf of the Owner

Developers must demonstrate acceptable multifamily housing experience and financial capacity to guarantee performance of their duties as described in the Development Services Agreement.

NOTE: Minnesota Housing reserves the right to approve the replacement of the Developer after being selected for a tax credit reservation.

1.07 Credit Review

Minnesota Housing conducts separate credit reviews at the following times:

- During the application and selection process
- Prior to credit approval for loan closings

1.08 Financial Responsibility

The Owner is responsible for all the costs incurred as a result of applying for, or securing a loan or tax credits from Minnesota Housing, whether or not the project 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.

Chapter 2 – Income

2. 01 Rent Revenue

Rents shown in the Multifamily Workbook (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.

For developments with project-based Section 8 rental assistance, Minnesota Housing will underwrite and size debt based upon the lower of HUD-approved rents under a Housing Assistance Payments (HAP) contract or market 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 will underwrite a transition reserve into the development budget.

2.02 Supportive Housing Standards – Long Term Homeless or People with Disabilities

Developments that have units set aside and rented to households who are Long-Term Homeless (LTH) or People with Disabilities are considered supportive housing units.

For supportive housing units with Group Residential Housing (GRH) rental assistance, the gross rents should be underwritten at the following levels:

- Efficiencies and one bedroom units: Recommended maximum gross rent level of $691 per unit. **NOTE:** Total available GRH is $891, but $200 may be used by the tenant for other housing expenses, and the administrator may also use a portion for administration, which is the preferred GRH use.
- Larger units (more than one bedroom): GRH can also be used for families, but the rent/income payment structure is more complex. Consult with the local county or the state Department of Human Services (DHS) for assistance in developing the GRH rent structure. The total amount of available assistance is $891.
- Justification should be submitted to support cases where higher gross GRH rent levels are needed.
- GRH gross rents cannot exceed the gross rents paid by non-GRH tenants for comparable units in the development.

For supportive housing units that do not have access to a rental subsidy, to ensure long term financial viability and affordability to the tenants, the amount of rent to be paid by the household should be affordable to the population to be served. The following information is based on data from the Homeless Management Information System (HMIS). If a rent subsidy, including GRH, is not available to the development, or the rental subsidy is not committed for at least 10 years, the gross rent (contract rent + tenant- paid utilities) should be underwritten at the following levels:

Target Population	Monthly Gross Rent Per Unit
SRO and Efficiency/Singles (only)	$100
1 BR/Singles or Families with Children	$130
2 BR or larger/Families with Children (only)	$180

Visit the Minnesota Housing website for Guidance on Rent Increase for LTH Assisted Units with No Rent Subsidies. Households should pay the greater of the development's current contract rent, rents established at underwriting, or 30 percent of their income. Developments should not exceed the rent limits established in the loan documents or other use restrictions. To the extent possible, Owners should have a written procedure in place that describes how 30 percent of household income is calculated and how that aligns with other funding requirements.

2.03 Other Income

Minnesota Housing will evaluate other income (e.g., 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.

2.04 Commercial Space

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.

2.05 Vacancy Factor

Properties will be underwritten at a 7 percent vacancy rate. A lower vacancy rate of 5 percent may be used if the property has any of the following:

- Rents at least 20 percent below comparable market rents; or
- Existing properties are supported by historic performance; or
- Section 8 assisted properties, if justified by historic operations.

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

Chapter 3 – Expenses

3.01 Management and Operating Expenses

The Owner/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 expenses will be used, with appropriate adjustments for projected economies attributable to the proposed rehabilitation and for changes associated with new program requirements.

M&O expenses (net of 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 expense numbers are calculated on a per room basis. The rental rooms per unit are calculated as follows:

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 expenses should be based on the Developer/management company's current portfolio and supported by:

- Actual 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 utility costs and property insurance
- Operating trends of the Developer/management company

The Owner supporting the proposed M&O expenses should include:

- For new construction:
    - Completion of Minnesota Housing's New Construction Comparable Property Profile Form
- For existing properties:
    - Copies of audited financial operating expense statements for at least three stabilized years

In sizing its funding awards, Minnesota Housing reserves the right to adjust the proposed M&O expense numbers 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 also use its M&O database to compare projected M&O expenses with audit data from comparable property types.

3.02 Property Taxes

The Low Income Rental Classification (LIRC) tax rate was created by the Minnesota State Legislature in 2005 to provide significant relief to certain housing developments where a minimum of 20 percent of the units meet specific income and rent restrictions.

All properties that are eligible for LIRC or Payment in Lieu of Taxes (PILOT) must participate in the applicable programs. Refer to Low Income Rental Classification (LIRC) on Minnesota Housing's website.

3.03 Construction Contingency

A construction contingency is required.

- For new construction developments, a 4 percent construction contingency, subject to Minnesota Housing review, is required.
- For rehabilitation developments, a 7 percent construction contingency, subject to Minnesota Housing review, is required.

3.04 Construction Oversight Fee

Historically, Minnesota Housing has charged a construction oversight fee only to developments funded with an amortizing mortgage under the Low and Moderate Income Rental (LMIR) program. Effective in 2015, a construction oversight fee will be assessed to all developments receiving Minnesota Housing amortizing or deferred loans (HOME loans are exempt). The fee will be assessed at the lessor of 0.25 percent of the construction contract amount or 1.0 percent of the total Minnesota Housing loans.

Chapter 4 – Fee Limits

4.01 General Contracting Fee Limits

- **Contractor's Profit**: The maximum contractor profit is 6 percent of Net Construction Costs. Net Construction Costs are defined as construction costs and on-site work, not including contractor profit, general requirements and overhead.
- **General Requirements**: The maximum general requirements allowed are 6 percent of the Net Construction Costs. Costs to be considered include: on-site supervision, signs, field office expenses, temporary sheds and toilets, temporary utilities, equipment rental, clean-up costs, rubbish removal, permits, watchmen's wages, material inspection and tests, all of the general contractor's insurance (except builder's risk), temporary walkways, fences, roads and other similar expenses.
- **Contractor's Overhead**: The maximum allowance for overhead is 2 percent of Net Construction Costs. The contractor fee limits may deviate from the above-noted maximum allowances so long as they do not exceed 14 percent of Net Construction Costs in the aggregate.
- **Developer or Owner as Contractor**: When there is an Identity of Interest between the Developer or Owner and the contractor, in addition to the fee limits stated above, the combined balance of Developer Fee, contractor profit, contractor overhead, and general requirements may not exceed 20 percent of the total development costs less the Developer Fee.

Refer to Minnesota Housing's Contractor's Guide for more detailed information.

4.02 Architect Fee Limits

Separate allowances for design and construction administration are calculated based on the gross construction cost on the Workbook. The design allowance (75 percent) is provided at completion and acceptance of the working drawings and specifications (i.e., at closing). The construction administration allowance (25 percent) is provided over the course of construction.

4.03 Developer Fee Limits

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. Developer Fees include developer overhead, developer processing fee, if applicable, developer profit, and any other amounts received by the Developer as approved by Minnesota Housing. The Developer Fee must be attributed only to the development.

In some instances, the Developer may delegate some of his or her responsibilities to a third party, such as a processing agent or consultant. 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 calculation of the permitted maximum Developer Fee.

A Developer Fee can be included in the total development cost of the project. The maximum allowable Developer Fee is based on a percentage of the total development cost less the Developer Fee.

The maximum amount of the Developer Fee paid at closing is 50 percent of the portion of the Developer Fee being paid with project financing sources. The remaining 50 percent of the Developer Fee must be paid no sooner than the final construction draw. This excludes a deferred Developer Fee to be paid from future project cash flow.

A developer incentive fee is not allowable for developments awarded Minnesota Housing deferred funding. Minnesota Housing will require any reference in the Limited Partnership Agreement of a developer incentive fee to be removed from the Limited Partnership Agreement. 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 policy, refer to Chapter 11 of this guide.

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

Chapter 5 – Reserves and Escrows

5.01 Replacement Reserves

Reserves for replacement must be budgeted at no less than $300 per unit per year for senior housing and $450 per unit per year for all other housing. If the [Capital Needs Assessment 20 Year Expenditure Template] 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.

5.02 Initial Deposit to Replacement Reserves

Minnesota Housing may require an initial deposit to the replacement reserve, depending upon the 20-year capital needs assessment and the level of on-going contributions to replacement reserves.

5.03 All Reserves

All unexpended funds remaining in project reserve accounts must remain for project use during the term of Minnesota Housing's loan or the project Extended Use Period, whichever is longer. The limited partnership 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 project for the term of Minnesota Housing's loan or the Extended Use Period, whichever is longer.

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

5.04 Operating Deficit Escrow

NOTE Effective March 24, 2015: Required for all developments funded with a LMIR amortizing loan. This escrow combines and replaces the previously required Working Capital Escrow and the Rent-Up Escrow.

At the time of initial closing of the LMIR loan, Borrowers are required to establish an Operating Deficit Escrow (ODE), funded with cash or an irrevocable and unconditional letter of credit. Cash to fund the ODE must not be derived from the proceeds of any development sources including equity. The ODE is not included in the total development costs.

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 percent 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 to 1 debt coverage ratio 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 both of these 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.

Chapter 6 – Proforma Assumptions

6.01 Income and Expense Inflation Factors

The proforma cash flow will assume revenue increases of no more than 2 percent per year and operating expenses increases of no less than 3 percent per year. **NOTE:** Developments with expense-based rents can use income and expense inflation factors that are equivalent.

Developments with project-based Section 8 will assume revenue increases no greater than historic average or 1.5 percent per year. A partially assisted project would have a pro rata inflation factor. Minnesota Housing reserves the right to change the appropriate inflation factors based on changes in the economic outlook.

6.02 Debt Coverage Ratio

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 debt service coverage a particular mortgage will require.

The development must maintain a break-even cash flow for a minimum of 15 years on a proforma basis.

The minimum debt coverage ratio for year one of stabilized operations is as follows:

Subsidized Properties (90% Section 8)	Affordable Properties	Equity Cash Out*
1.11	1.15	1.20

The development must reflect a cash flow, after all expenses and reserves, that reflects at least a 1.00 debt coverage ratio, for 15 years on a proforma basis. The cash flow must include mandatory expenditures such as bond fees.

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

Chapter 7 – Acquisition

7.01 Purchase Price

- Minnesota Housing will underwrite the acquisition cost based on the lesser of the option/purchase agreement purchase price or the appraised value of the property. For details on valuation methodology, refer to the appraisal requirement section of this guide.
- For a Related Party Transaction that occurs within three years of a previous arms-length third-party transaction, Minnesota Housing's underwritten acquisition cost will be based upon the lesser of the previous third-party transaction's purchase price, with no adjustment for appreciation or depreciation, or the appraised value of the property following 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.

7.02 Acquisition-Related Costs

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

- Relocation
- Lender fees and three years or fewer of interest on an acquisition loan up to a 6 percent 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 they are treated by Minnesota Housing for the purpose of calculating the percentage of intermediary costs.

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 funding is requested.

Chapter 8 – Appraisal Requirements

8.01 Appraisal at the Time of Application

A Minnesota Housing ordered appraisal is required to support the acquisition price and will be used by Minnesota Housing and its funding partners to size funding awards. Appraisals completed for other lenders or ordered by the applicant will not be accepted.

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. 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
    - Assuming market rate rents
    - 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, in its sole discretion, reserves the right to secure an appraisal at the Borrower's expense at a later date:

- Acquisition price under $100,000
- Land only where there is no Identity of Interest*
- Single family homes (one to four family(ies)) 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 herein.)
- Property on tribal lands

*Identity of Interest is used broadly to include non-arm's length transactions and Related Party Transactions.

8.02 Prior to Closing-Amortizing Loans

For amortizing loans, an appraisal ordered by Minnesota Housing, is required prior to obtaining final Mortgage Credit Committee approval.

- 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

- Maximum Loan to Cost/Loan to Value
    - Subsidized Properties (90% Section 8) 87%
    - Affordable Properties 87%

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

8.03 Prior to Closing-Deferred Loans

For non-amortizing loans, Minnesota Housing requires an appraisal prior to closing similar to that required for amortizing loans (above). Borrowers should discuss this requirement with their assigned underwriter and if appropriate, a waiver to use another lender's appraisal may be sought through Minnesota Housing's Mortgage Credit Committee. Any waiver of this requirement will be determined at Minnesota Housing's sole discretion. Non-amortizing developments exempt from this requirement include:

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

8.04 Appraisal Expiration Period

For appraisals at the time of application, the appraisal will be valid for funding awards made within 12 months from the effective date of the report.

For amortizing loans, the effective date of the appraisal must be within six months of closing or end loan commitment.

For deferred loans, the effective date of the appraisal must be within 12 months of closing or end loan commitment.

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

8.05 4% Housing Tax Credit (HTC) - Issuance of a Preliminary Determination Letter

Developments that are requesting a Preliminary Determination Letter and that are not receiving Minnesota Housing deferred or first mortgage loans can submit a lender approved as-is appraisal in lieu of a Minnesota Housing ordered appraisal. The lender's appraisal must be approved by Minnesota Housing, and Minnesota Housing reserves the right to request a Minnesota Housing ordered appraisal.

Chapter 9 – Types of Sources

9.01 Amortizing Loans

HUD Risk-Sharing Insurance. HUD Risk-Sharing Insurance is required for all LMIR amortizing first mortgage loans. Minnesota Housing generally insures at Level I (HUD insures 50 percent of the loan). If Minnesota Housing determines that HUD Level II (HUD insures up to 90 percent) insurance is appropriate, more stringent underwriting requirements may apply.

Refer to the LMIR/FFCC Guide for more information on HUD Risk-Sharing Insurance.

Minnesota Housing Eligible Mortgage Costs (Mortgageable Costs). The first year's mortgage insurance premium may be financed with Minnesota Housing loan proceeds (LMIR or deferred).

Minnesota Housing's required reserves may be funded with loan proceeds. They must be held by Minnesota Housing and used at Minnesota Housing's discretion.

9.02 Deferred Loans

Deferred loans are generally structured with a 30-year term at 0-1 percent interest. Payment of principal and accrued interest is due on the date of loan maturity.

9.03 Cash Flow Note

Minnesota Housing's deferred loans may require an annual payment based on year end Surplus Cash as adjusted per the calculation below.

For newly funded projects, including those receiving HTC, the annual payment is equal to 20 percent of the amount by which eligible cash exceeds $50,000 per year. It has been agreed upon that cash flow payments will first be applied to subordinate funding from private funders until paid in full, and then to the remaining subordinate loans containing cash flow provisions on a pro rata basis.

Annual Cash Flow Payment Calculation

- Surplus Cash is defined in Section 13 of the HUD Regulatory Agreement for Multifamily Projects (Form 92466M)
- Surplus Cash is calculated using HUD's Computation of Surplus Cash, Distributions and Residual Receipts (Form 93486), 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
- 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

The annual cash flow payment is equal to 20 percent of the amount by which eligible cash exceeds $50,000 per year.

Seller loans, whether from related- or third-parties, will be reviewed 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 Computation of Surplus Cash, Distributions and Residual Receipts (Form 93486) or Minnesota Housing's Surplus Cash Computation Form

Minnesota Housing will review and confirm the annual payment calculation and will invoice the project, allowing for repayment to occur up to the end of the current calendar year to correspond with general HUD distribution guidelines.

NOTE: Developments with more than 75 percent supportive housing or long-term homeless units are exempt from cash flow note provisions.

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

9.04 Refinancing

For any mortgage refinancing, existing Guarantors are expected to remain in place. Refinance loans do not involve a construction period and the cost of rehabilitation may be funded into escrows and disbursed within 12 months. The scope of any proposed rehabilitation will not be considered substantial rehabilitation as defined in Minnesota Housing's Rental Housing Design/Construction Standards if it meets the following:

- 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 does not exceed $40,500/unit.

9.05 Equity Bridge Loan

The following requirements apply to equity bridge loans when Minnesota Housing's amortizing loan (LMIR) and/or Minnesota Housing's deferred loans are used to finance the development.

- If Minnesota Housing's LMIR funding is to be used during the construction period and the equity bridge lender does not have a security interest in the property:
  - The Minnesota Housing LMIR loan will be in first position. The bridge lender will be secured with an assignment of the capital contributions from the investor.
  - The Borrower will guarantee the principle and interest payments and operating expenses until the development has reached stabilization.
  - After the initial 20 percent equity installment, Minnesota Housing LMIR proceeds will be advanced at no greater than an equal proportion (pari passu) with the equity and/or equity bridge funding.
- If Minnesota Housing's LMIR funding is used during the construction period and the equity investor/bridge lender does have a security interest in the property:
  - The Minnesota Housing LMIR loan will be in first position. The equity bridge loan will be in second position. Minnesota Housing's LMIR funding is always released last after all bridge funding is fully expended, regardless of the cost of other funds.
  - The bridge loan mortgage must contain a release clause which allows the mortgage to be terminated to ensure Minnesota Housing's ability to have HUD endorse the LMIR note in a timely manner.
  - If Minnesota Housing or funding partners are providing only deferred loan(s), then a minimum of 20 percent equity investment or 30 percent equity bridge loan proceeds must be paid up front, prior to Minnesota Housing and/or funding partner deferred loan proceeds being released. A higher percentage may be required for new syndication entrants to the Minnesota HTC market or on small projects where 20 percent equity is not deemed adequate by Minnesota Housing.
- If the project is Minnesota Housing bond financed (with 4 percent HTC) and Minnesota Housing provides an equity bridge loan to meet the 50 percent test:
  - Minnesota Housing's equity bridge loan cannot exceed 70 percent of the total anticipated equity pay-in as described in the limited partner agreement.
  - Minnesota Housing will require an assignment of the general partner's interest in the limited partnership.
  - Minnesota Housing will require the equity bridge loan to be fully guaranteed by one or more individuals or corporations approved by Minnesota Housing.
  - Minnesota Housing's mortgages must be fully collateralized per Minnesota Housing standards.
- If Minnesota Housing's amortizing loan (LMIR) is an end loan, then pay-off and release of the bridge loan/construction mortgage is a condition of the Minnesota Housing end loan closing.

9.06 Balloon Mortgages

To achieve long-term viability in projects where Minnesota Housing has invested subordinate funds, Minnesota Housing strongly encourages long term, fully-amortizing, first mortgages. However, Minnesota Housing mortgages may be underwritten with a 17 year term and 30-40 year amortization, subject to mitigating factors (e.g., overall project sources and uses, projected loan-to-value at refinancing, and other risk factors) at the sole discretion of Minnesota Housing.

9.07 Deferred Debt on Mixed-Income Developments

Minnesota Housing deferred debt will only be used for and based upon the financing gap on affordable (rent restricted) units.

9.08 Sales Tax Rebate

All developments eligible for a sales tax rebate must participate. The sales tax rebate will be considered a source used to size tax credit and deferred loan awards. The sales tax rebate estimate is not basis eligible and will be removed from basis on a tax credit development. The sales tax rebate must be bridged. The sales tax rebate will be used first to pay back the source used to bridge the rebate. Should the development have an excess sales tax rebate, the funds may be used to pay the deferred Developer Fee and/or may be required to be deposited into a development reserve.

9.09 Energy Rebates

All developments receiving tax credits or deferred funding from Minnesota Housing must provide an Energy Rebate Analysis. The estimated energy rebate will be considered a source used to size tax credit and deferred loan awards. The energy rebate may or may not be basis eligible; consult your certified public accountant for basis eligibility. The energy rebate must be bridged. The energy rebate will be used first to pay back the source used to bridge the rebate. Should the development have excess energy rebate funds, they may be used to pay the deferred Developer Fee and/or be required to be deposited into a development reserve. Requirements and guidelines for the Energy Rebate Analysis can be found in Minnesota Housing's Rental Housing Design/Construction Standards (Chapter 8 – Sustainable Housing).

Chapter 10 – Involuntary Displacement

Minnesota Housing prohibits involuntary displacement of residents from developments receiving Minnesota Housing funding; however, if a development receives US Department of Housing and Urban Development's (HUD) Home Investment Partnerships HOME or National Housing Trust Fund (NHTF) funds, the Owner must take all reasonable steps to minimize displacement. If displacement is necessary, as approved by Minnesota Housing, the Owner must comply with the Uniform Relocation Act (URA) and any other applicable federal laws regarding displacement.

Chapter 11 – Closing

11.01 Closing in Balance

Except as noted below, all sources of funds must be available at closing or bridge funding must be provided to pay development costs through construction completion. Equity (including syndication proceeds not bridged) will be held by a title insurance company. For tax credit projects with equity pay-ins to be made during construction, Minnesota Housing will, at its sole discretion, determine the need to bridge these funds based on a review of the project, the pay-in schedule, the investor, general partner, Developer and general contractor.

In addition to syndication proceeds, other sources commonly required to be bridged are tax increment financing, grants from cities, interim income (existing properties) and sales tax rebates.

11.02 Minimum Tax Credit Equity Pay-in at Closing

For all projects funded by HTC equity, the equity investor must pay out at least 20% of the total tax credit equity at the initial or construction loan closing before any of Minnesota Housing's funds will be advanced. A higher percentage may be required for new syndication entrants to the Minnesota HTC market or on small projects where 20 percent equity is not deemed adequate by Minnesota Housing.

11.03 Cost Savings at the End of Construction

Cost savings remaining at the end of the construction or rehabilitation, if any, may be deposited in the replacement reserve account, may be used to reduce Minnesota Housing funding, or may be put to another appropriate use for the benefit of the development, approved by Minnesota Housing.

Cost savings cannot be used to fund a developer incentive fee if awarded Minnesota Housing deferred funding.

Developments funded with federal funding, such as HOME and NHTF, are not allowed to deposit any cost savings in the replacement reserve account.

Chapter 12 – Contract Compliance and Equal Opportunity

12.01 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.

12.02 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.

12.03 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.

12.04 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.

12.05 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 13 - 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.

Appendix A – Terms

Term	Definition
Borrower	A Borrower is an entity who has received an amortizing first mortgage or deferred loan from Minnesota Housing.
Developer	Typically a separate legal entity from the Borrower or Guarantor(s) who may complete the financing and development of a project for a fee.
Developer Fee	Is 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.
DHS	State of Minnesota Department of Human Services.
Eligible Mortgagor	"Eligible mortgagor" means a nonprofit or cooperative housing corporation or a limited profit entity.
Energy Rebate Analysis	A report of energy rebates being considered/pursued for a development.
Equity Cash Out	Equity Cash Out is defined as any refinance or restructure proposal that includes equity being taken out, including transactions that are related party acquisitions and limited partner buy out.
Extended Use Period	The term of the Declaration of Land Use Restrictive Covenants under the Housing Tax Credit program.
GRH	Group Residential Housing (GRH) is a state-funded rental assistance program that provides cash assistance, including room and board for unrelated people who live in certain licensed or registered group living arrangements. The program is administered through Minnesota Department of Human Services (DHS).
Guarantor	A Guarantor is the entity or individual who signs the Guaranty.
Guaranty	Available upon request from Minnesota Housing staff.
HAP	Housing Assistance Payment is a HUD rental assistance under the Section 8 Project Based Housing Assistance Program.
HMIS	A Homeless Management Information System (HMIS) is a type of internet-based, locally-administered database used to record and analyze client, service and housing data for individuals and families who are homeless or at risk of homelessness.

HOME	The HOME Investment Partnerships Program is federal program administered by Minnesota Housing (as well as others). Minnesota Housing awards its HOME funds as 30 year loans for rehabilitation or acquisition and rehabilitation of federally assisted multifamily rental housing.
HTC	The Federal Tax Reform Act of 1986 created the Housing Tax Credit (HTC) Program (see 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	United States Department of Housing and Urban Development.
Identity of Interest	An Identity of Interest exists when two parties to an agreement have a common or related party entity with ownership interest in both parties.
HUD Risk-Sharing Mortgage Insurance	In order to minimize Minnesota Housing's risks, all permanent LMIR loans will 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. Level I: HUD's insured portion is 50 percent Level II: HUD's insured portion is up to 90 percent.
LIRC	Low Income Rental Classification (LIRC) is the tax bill adopted by the Minnesota Legislature in the 2005 legislative session and signed by the Governor on Wednesday, July 13, 2005 which made significant changes to the property tax classification rate for qualifying low-income rental properties. This results in a class rate reduction of up to 40% 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.
LMIR	The Low and Moderate Income Rental (LMIR) program is to provide 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.
LTH	Long Term Homelessness is defined as persons including "individuals, unaccompanied youth, and families with children lacking a permanent place to live continuously for a year or more or at least four times in the past three years. Any period of institutionalization or incarceration shall be excluded when determining the length of time the household has been homeless."
M&O	The Management and Operating budget is the operating budget for a multifamily rental property net of real estate taxes and reserves.
Mortgage Credit Committee	A cross-divisional management group which approves credit analysis, ownership structures and financing of projects selected for Multifamily loans and related matters.
Net Construction Costs	Net construction costs are construction costs not including contractor profit, general requirements and overhead.
NHTF	National Housing Trust Fund (NHTF) is 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 homeless families.
ODE	Operating Deficit Escrow, a reserve required for all developments funded with a LMIR amortizing loan.
Owner	An Owner is an entity or person who holds title to the real property.
People with Disabilities	Minnesota Housing's Amended 2018 Housing Tax Credit Program Self-Scoring Worksheet defines as: • A serious and persistent mental illness as defined in Minn. Stat. § 245.462, subdivision 20, paragraph (c); or • A developmental disability as defined in United States Code, Title 42, Section 6001, paragraph (5), as amended; or • Assessed as drug dependent as defined in Minn. Stat. § 254A.02, subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minn. Stat. § 254A.02, Subdivision 2; or • A brain injury as defined in Minn. Stat. § 256B.093, Subdivision 4, paragraph (a); or

	• Permanent physical disabilities that substantially limit major life activities, if at least 50% of the units in the project are accessible as provided under Minnesota Rules Chapter 1341.
PILOT	A PILOT is a payment in lieu of taxes**,** 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.
Preliminary Determination Letter	Issued by the tax credit Allocating Agency indicating that a proposal satisfies the requirements for eligibility for Housing Tax Credits through the issuance of tax exempt bonds.
Related Party Transaction	Acquisition of existing properties where there is a common or related entity as part of the ownership structure.
Section 8	The Section 8 Project-Based Rental Assistance program enables more than 2 million people in 1.2 million 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	A Sponsor is an individual, legal entity, or nonprofit board of directors that exercises control and decision-making authority over the project.
Surplus Cash	Certain project cash pursuant to the calculation set forth in Section 13 of the HUD Regulatory Agreement for Multifamily Projects (Form 92466M) or Minnesota Housing's Computation of Surplus Cash Form.
TDC	Total Development Cost is the total budget for the development of an affordable housing development.
Workbook	The Multifamily Workbook is the excel tool used for application and updated through loan closing and 8609, if applicable for Minnesota Housing Tax Credits, first mortgages, deferred loans, rental assistance and operating subsidies.