



Rehabilitation Loan Program Procedural Manual

September 1, 2021



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Introduction

Mission Statement

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance housing that is affordable.

Background

Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing created the Rehabilitation Loan Program (the “Program”) to compliment loan programs available in the private sector to fill the financial gap that exists between low-income homeowners able to secure home improvement financing in the private sector and those homeowners unable to do so.

Procedural Manual

This Procedural Manual sets forth for the Lenders the terms and conditions under which Minnesota Housing will purchase mortgage loans originated under the Program.

Rehabilitation Loan Program

Deferred, zero percent interest rate Program loans are available to low-income Minnesota homeowners through participating Lenders. Loans must be for improvements that directly affect the safety,¹ habitability² livability, or energy efficiency³ of the home. Existing residential housing is inspected using Minnesota Housing’s Single Family Rehabilitation Standard (“Rehabilitation Standard” see Appendix B). Deficiencies cited in any property inspection under the Rehabilitation Standard must be prioritized and cured as funding allows. Homeowners requiring assistance of an emergency nature will be referred to the Minnesota Housing Emergency and Accessibility Loan Program.

(in footer as hyperlink)

¹ Rehabilitation improvements which address conditions in the home that can cause danger or risk of injury.

² Rehabilitation improvements which address basic needs and are of average/median grade or quality.

³ Rehabilitation improvements which reduce overall energy use while providing the same or a higher level of performance, comfort and convenience.

Chapter 1 – Partner Responsibilities/Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Rehabilitation Loan Program Participation Agreement (the “Participation Agreement”) executed between the Lender and Minnesota Housing. Minnesota Housing reserves the right to:

- Change the Program interest rate at any time under its sole discretion;
- Alter or waive any of the requirements;
- Impose other and additional requirements; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

Minnesota Housing is under no obligation to purchase any loan or retain ownership of a loan that does not comply fully with this Procedural Manual. Minnesota Housing may grant waivers, alterations or revisions at its sole discretion.

1.02 Compliance with Privacy Act Statutes

The Minnesota Government Data Practices Act:

- Requires the Lender to supply Borrowers with the Tennessee Warning and the Privacy Act Notice (Appendix B) when requesting private data;⁴ and
- Governs when the disclosure of the Borrower’s Social Security Number is required.

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Sections 270A.01 to 270A.12) allows the disclosure of the Borrower’s Social Security Number or Minnesota Tax Identification Number to the Minnesota Department of Revenue. This could result in the application of funds held by the State, including but not limited to tax refunds to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

1.03 Unauthorized Compensation

The Lender may receive fees approved in this Procedural Manual. However, the Lender shall not receive or demand from builder, remodeler, contractor, supplier, or Borrower:

- Kickbacks;
- Commissions;
- Rebates; or
- Other compensation.

In order to reduce the total rehabilitation cost associated with an eligible property, the Lender may receive discounts from third parties involved in the project improvements. In these cases, the Lender must document in the Borrower file that the discounts received are considered typical for the market area and do not constitute a kickback, commission, rebate or

⁴ Only the Borrower’s name, address and amount of assistance received are public data and may be released to the public. All other data are private and may be released only to those authorized access by law.

compensation for products or services rendered. Any discounts that exceed what is typical must be documented as a charitable contribution by the representative of the seller, builder, remodeler, contractor or supplier providing the discount.

1.04 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by Minnesota Housing. Minnesota Housing will perform a quality control audit of loan files purchased from the Lender and will notify the Lender if a loan is selected for audit. Upon request, the Lender must submit a complete loan package with all documentation that was used to originate and close the loan. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased.

Audited loans are reviewed for:

- Minnesota Housing Program/policy compliance;
- Compliance with federal and state consumer lending regulations;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the Program in part or in whole.

1.05 Termination of the Lender's Participation

Minnesota Housing may terminate the participation of any Lender under this Procedural Manual at any time and may preclude the Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual;
- The Participation Agreement;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Borrower's rights with regard to obtaining financing for home improvements; and
- Other applicable state and federal laws, rules, and regulations.

Upon termination of the Lender's Participation Agreement, Minnesota Housing will continue to purchase eligible loans for which a Commitment has already been issued, until the Commitment expiration date.

Minnesota Housing may, at its option, impose remedies other than termination of the Participation Agreement for the Lender's nonperformance.

The Lender may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate the Lender shall be at Minnesota Housing's sole discretion.

1.06 Representations and Warranties

The Lender agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following (and any applicable rules, regulations, or laws thereunder):

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Data Privacy - Minnesota Statutes Chapter 13;
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- Truth in Lending Act;
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement Procedures Act of 1974.

In addition to the above warranties and representations, the Lender also warrants and represents that:

- The Lender will comply with the Minnesota Housing Lead Based Paint Guidebook, found on the Minnesota Housing website;
- The Lender is the sole owner and holder of the Program loan with the right to assign it to Minnesota Housing;
- The Lender has assigned the loan free and clear of all encumbrances;
- The Lender has complied and will continue to comply with all terms and conditions in the Participation Agreement and this Procedural Manual for each loan processed unless prior written approval is obtained from Minnesota Housing;
- The Lender is a legally constituted public or governmental agency, political subdivision, nonprofit entity, a housing and redevelopment authority, or other organization which has as a primary purpose, the provision or development of affordable housing to low-income persons or households in Minnesota;

- The Lender maintains capital and trained personnel adequate to render the services required as a part of the Lender’s participation in the Program;
- The Lender follows all state and federal consumer lending laws, rules and regulations;
- The Lender has neither received nor solicited any fee or remuneration not approved by this Procedural Manual;
- After reasonable inspection, the Lender has no knowledge that any improvement funded by the loan is in violation of applicable zoning ordinances, building ordinances, laws or regulations; and

The Lender also agrees that the person who confirms on the Minnesota Housing Loan Commitment System on behalf of the Lender is fully conversant with Minnesota Housing Program requirements, and has the authority to legally bind the Lender; and the Lender has complied with all terms, conditions and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions and requirements have been specifically waived in writing by Minnesota Housing.

1.07 Lender Compensation

The Lender is compensated for each loan purchased by Minnesota Housing at a rate of \$2,500 plus 5% of the loan amount per loan.

1.08 Selection of Contractors

The Lender may not choose the contractor. Borrowers are responsible for the selection of any contractor who will be involved in completing rehabilitation improvements on the property.

Chapter 2 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

2.01 Fraud

Fraud is any intentionally deceptive action made for personal gain or to damage another. Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in Section 2.05.

2.02 Misuse of Funds

A loan and Participation Agreement are legal contracts. The borrower and the Lender must use the funds to engage in eligible uses or procure certain goods, or services when Minnesota Housing provides funds to the borrower or the Lender to pay for those eligible uses, goods, or services. Regardless of the Minnesota Housing program or funding source, the borrower or the Lender must use Minnesota Housing funds as agreed and the borrower or the Lender must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

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

Any borrower or Lender (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in Section 2.05.

2.03 Conflict of Interest

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

An individual conflict of interest is any situation in which one's judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a friend, relative, acquaintance or business or organization with which they are involved.

Organizational conflicts of interest occur when:

- A contracting party is unable or potentially unable to render impartial assistance or advice to Minnesota Housing due to competing duties or loyalties;
- A contracting party's objectivity in carrying out their responsibilities might be otherwise impaired due to competing duties or loyalties; and/or
- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors.

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

- Revising the contracting party's responsibilities to mitigate the conflict;
- Allowing the contracting party to create firewalls that mitigate the conflict;
- Asking the contracting party to submit an organizational conflict of interest mitigation plan; or
- Terminating the contracting party's participation

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all actual, perceived, or potential conflicts of interest through one of the ways described in Section 2.05.

A contracting party should review its contract agreement and Request for Proposals (RFP) material, if applicable, for further requirements.

2.04 Suspension

By entering into any agreement with Minnesota Housing, contracting party (including its employees or affiliates that will have direct control over the subject of the agreement) represents that it has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing's website for a list of suspended individuals and organizations.

2.05 Disclosure and Reporting

Minnesota Housing promotes a "speak-up, see something, say something" culture whereby internal staff, external business partners (e.g., the Lenders, borrowers) and the general public are encouraged to report instances of fraud, misuse of funds, conflicts of interest, or other concerns without fear of retaliation. You may report wrongdoing or other concerns by contacting:

- Minnesota Housing's Chief Risk Officer
- Any member of Minnesota Housing's [Servant Leadership Team](#)
- EthicsPoint, the Minnesota Housing hotline reporting service vendor

Chapter 3 - Borrower Eligibility Requirements

3.01 Borrower

One individual or multiple individuals are eligible to be a Borrower(s) only if such individual or individuals meet the requirements of this Procedural Manual.

3.02 Borrower Age

Borrower must be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction.

3.03 Co-Signers

Co-signers are not permitted on Program loans.

3.04 Ownership Interest

For residences taxed as real property, the Borrower(s) must individually, or in the aggregate, possess at least a one-third ownership interest in the residence to be improved. For a Manufactured Home taxed as personal property, the Borrower(s) ownership interest requirement is 100%.

The Borrower(s) and Accommodation Parties, individually or in the aggregate, must have 100% ownership interest in the residence to be improved.

Borrowers under this Program must have clear title to the subject property as outlined in Section 5.06 of this Procedural Manual.

Eligible forms of ownership interest include the following:

- A fee simple estate;
- A community land trust;
- Vendee interest in a recorded contract-for-deed⁵;
- A Manufactured Home taxed as real property; or
- A Manufactured Home taxed as personal property and located in a Manufactured Home park.
- A Manufactured Home with an approved tribal residential lease located on tribal lands.

Title may be held as follows:

- Individually;
- Joint Tenants;
- Tenants in common; or

⁵ Borrower must get prior approval from contract for deed vendor. Vendor will be required to sign the Mortgage as an Accommodation Party.

- A recorded life estate, excluding remaindermen⁶

Ineligible forms of ownership interest include but are not limited to the following:

- Shares in a Cooperative Corporation;
- Ownership by any form of trust; and
- Ownership subject to a reverse mortgage.

3.05 Occupancy Requirements

Borrower must have owned and occupied the property as his/her Principal Residence for at least 6 months prior to applying for the Program loan. Further, the Borrower must maintain ownership and title to the property and reside in the property as his/her Principal Residence during the term of the loan.

3.06 Rehabilitation Loan Program Application

To be considered for Program funds, Borrowers must apply for the Program through an approved Lender using the Minnesota Housing Borrower Application.

3.07 Prior Minnesota Housing Assistance

A Borrower who has previously received financing through the Program is ineligible to receive further financing through this Program for five years (from the loan closing date) thereafter with exceptions for emergency situations as determined in the sole discretion of Minnesota Housing.

3.08 Rehabilitation Loan Program Eligibility Income

Gross annual household income includes but is not limited to the gross annual projected household income of all residents age 18 and over that reside in the household, from whatever source derived and before taxes or withholdings – less deductible medical expenses allowed. Incidental income from after school employment of persons under 18 years of age does not need to be included. (See [Income Eligibility Calculation Worksheet](#)). The maximum gross household income may not exceed the amounts listed on Minnesota Housing's website.

Gross annual projected household income includes:

- Salary, commissions, bonuses, tips, and earnings from full-time, part-time and seasonal employment, including sick pay;
- Interest, dividends, and gains on sale of securities;
- Annuities, pensions, and royalties;
- Veterans Administration compensation/benefits;
- Public assistance;
- Social Security benefits;
- Unemployment Insurance;

⁶ Remainderman will be required to sign the Mortgage as an Accommodation Party.

- Net rental income;
- Net income received from business activities (see Income Eligibility Calculation Worksheet);
- Alimony and child support;
- Estate or trust income;
- Ongoing educational grants; and
- Contract-for-deed income after deducting principal, interest, taxes and insurance paid on outstanding debt against the property. (Deductions may not exceed the contract-for-deed income.)

If a Borrower's gross annual income is zero or a negative amount, the Borrower is ineligible for financing.

Documentation of the Borrower's gross annual household income must be dated no more than 3 months before the loan commitment is obtained via the Loan Commitment System

3.09 Minnesota Housing Maximum Asset Limit

The total assets of all residents in the household may not exceed \$25,000 after deducting any outstanding indebtedness pertaining to the assets. Assets include, but are not limited to, the following:

- Cash on hand or in checking or savings accounts;
- Securities or United States Savings Bonds;
- Market value of all interests in real estate, exclusive of the structure to be improved and a parcel of real property of not more than two contiguous platted lots or 160 continuous acres on which such structure is located;
- Cash value of life insurance policies;
- Recreational vehicles such as golf carts, snowmobiles, boats, or motorcycles;
- All land in which any resident of the household holds title and is selling on a contract-for-deed. Value in this case is defined as the outstanding principal balance expected to exist on the contract one year from the date of application;
- Life estate value on a property other than the subject property; and
- All other property, excluding household furnishings, clothing, and one automobile, and real estate, equipment, supplies, and inventory used in a business.

Documentation of assets of the Borrower(s) and all residents in the household must be dated no more than 3 months before the loan commitment is obtained via the Loan Commitment System.

3.10 Credit Requirements

- Credit reports are not required by Minnesota Housing.
- Borrower must be current on all property tax payments at the time of application
- Borrowers must be current on all mortgage loan payments at the time of application. Examples of documentation for verifying payments include, but are not limited to:
 - A verification of current mortgage payment status from the loan servicer; and

- A mortgage statement citing the loan servicer's name and address, the most recent payment made, the date and amount of the next payment due and any past due amounts, and/or any unpaid fees.

3.11 Separated Spouses

When the Lender establishes that a spouse permanently resides outside of the household, that separated spouse may be excluded from signing the Rehabilitation loan application and note but must sign the mortgage.

Examples of separated spouse documentation include:

- Legal separation documentation;
- Proof of initiated divorce proceedings; and
- Verification of separate Principal Residence and absence of joint accounts.

3.12 Loans to the Lender's Employees and Affiliated Parties

The Lender may make Minnesota Housing loans to their directors, officers, agents, consultants, employees and/or their families, elected or appointed officials of the State of Minnesota as well as to Minnesota Housing employees and/or their families who are not in a position to participate in a decision making process or gain inside information with regard to the loan and do not result in a conflict of interest as outlined in Section 2.03. The Borrower must meet all eligibility criteria for the Program.

Chapter 4 - Property Eligibility Requirements

4.01 Eligible Properties

Properties eligible for a loan must be located in the State of Minnesota and include any of the following property types:

- A single family detached home;
- A duplex;⁷
- An eligible one-unit dwelling in an eligible planned unit development (PUD);
- A condominium unit;⁸
- A townhome;⁹ and
- Certain Manufactured Homes that meet the requirements outlined in Section 3.04.

4.02 Ineligible Properties

Properties ineligible for a loan include but are not limited to:

- Properties containing three or more units;
- Properties intended for use as an investment property (except the rental of a second unit in a duplex);
- Properties intended for recreational use; and
- Properties primarily used for business (more than 50% of the floor space is used for business).

4.03 Property Inspections

The Lender must conduct inspections of the property as follows:

- The first inspection must be made using the Rehabilitation Standards (Appendix B) in order to determine the property's deficiencies without regard to lead-based paint hazards. The results of the inspection are used to prepare the initial scope of work.
- If required, lead-based paint inspections or tests must be completed according to the [Lead-Based Paint Guide for Applicable Single Family Programs](#). If required per the Lead-Based Paint Guide for Applicable Single Family Programs, lead-based paint hazard reduction must be added to the scope of work.
- Additional inspections must demonstrate that construction has been completed according to the scope of work and that the quality of the work is satisfactory. The Lender may conduct additional inspections as work is completed.

Minnesota Housing reserves the right to inspect properties during any stage of the rehabilitation process with reasonable notice.

⁷ The Borrower must occupy one unit of a duplex property. Any improvements that benefit only the rental unit of a duplex must have prior written approval by Minnesota Housing.

⁸ If the property is a condominium, only the portion of the real estate owned by the Borrower is eligible for financing under this Program. The common areas owned by the association are not eligible.

⁹ If the property is a townhome, only the portion of the real estate owned by the Borrower is eligible for financing under this Program. The common areas owned by the association are not eligible.

4.04 Local Ordinances and Plans

Property improvements must conform to all applicable zoning ordinances and all appropriate permits must be obtained.

Chapter 5 – Loan/Rehabilitation Eligibility

5.01 Loan Eligibility

Minnesota Housing purchases closed loans from the Lenders if the loan satisfies all the requirements of this Procedural Manual.

5.02 Interest Rate/Amortization Requirements

Generally, loans under this Procedural Manual are interest-free, deferred loans which are forgiven at the end of the loan term. However, if the Borrower sells, transfers title or ceases to occupy the property as his/her Principal Residence during the loan term, the loan will become due and payable.

5.03 Program Loan Amounts

- The minimum loan amount is \$1,000.
- The maximum loan amount may not exceed \$37,500 and may include the costs of required radon tests, pre-rehabilitation energy audits, post-rehabilitation blower-door tests, and lead-based paint inspections and remediation.
- Recording fees, mortgage registration tax and title search costs may be collected from the Borrower or may be included in the loan amount as long as Program loan amount maximum is not exceeded. No other fees may be charged to the borrower.

5.04 Mortgage Term

Prior to the expiration of the applicable periods indicated below, all loans are due on sale, transfer of title, or if the property ceases to be the Borrower's Principal Residence.

- The loan term for properties taxed as real estate is 15 years.
- The loan term for Manufactured Homes:
 - Taxed as real property is 15 years;
 - Taxed as personal property and located within a Manufactured Home park is 10 years; or
 - Taxed as personal property with an approved tribal residential lease located on tribal lands is 10 years.

5.05 Security for the Loan

- All loans for properties taxed as real estate must be secured with a mortgage which must be recorded within 30 days after the date of closing. The Lender may not wait to record the mortgage until after the rehabilitation is completed to accommodate changes in the loan amount.
- All interests in the Note and Mortgage must be assigned to Minnesota Housing when the loan is purchased and funded by Minnesota Housing.
- Loans for a Manufactured Home taxed as personal property must be secured with a lien against the title to the Manufactured Home.

- In the event there are changes in the loan amount, the Lender must follow the Change Order requirements in Section 5.08.

5.06 Title Requirements

The Lender is required to verify:

- The legal description of the subject property;
- The Borrower's ownership interest, by conducting a title investigation:
 - Through documented contact with the County Recorder's Office/Registrar of Titles; or
 - Through documentation of ownership provided by tribal government; or
 - Via an Owners and Encumbrances report; and
- Existing liens, if any, on the property.

5.07 Rehabilitation Requirements

- Each rehabilitation improvement must be a permanent general improvement made in compliance with all applicable state, county and municipal or tribal government health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Prior to rehabilitation, properties must be inspected to the Rehabilitation Standard (Appendix B) to determine any deficiencies.
- Rehabilitation must comply with the [Lead-Based Paint Guide for Applicable Single Family Programs](#).
- All rehabilitation improvements must be prioritized in a written scope of work and must correlate to the deficiencies identified during the Rehabilitation Standard (Appendix B) inspection and includes all applicable lead-based paint hazard reduction activities.
- At least two bids from Minnesota-licensed building contractors must be solicited based on the written scope of work. Bids from Tribal government approved contractors are allowed if the property is located on tribal lands. In general, the lowest, reasonable bid should be selected. If the lowest, reasonable bid is not selected, the Lender and Borrower must document written justification for not selecting the lowest, reasonable bid.
- All rehabilitation improvements must be completed by contractors licensed in the State of Minnesota or tribal government approved contractors except a homeowner need not be licensed when homeowner labor is involved.
- A written construction contract must be executed between the contractor and the Borrower.
- All rehabilitation improvements must comply with the [Green Communities Scope of Work Addendum](#).
- Rehabilitation improvements to Manufactured Homes must comply with Minnesota State Building Code (Minnesota Rules Part 1350.3800) which addresses the distinction between a Construction Alteration and a Repair and the different licensing requirements attendant to each improvement.

After completion of rehabilitation, eligible properties must:

- Be free of deficiencies which will cause further damage to the home. The Rehabilitation Standard must be used as the basis for all rehabilitation work undertaken.
- Have completed rehabilitation work that is in compliance with all applicable state, county and municipal health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Meet the lead-based paint requirements in the Lead-Based Paint Guide for Applicable Single Family Programs.

5.08 Change Orders

After the loan has closed:

- Changes in the scope of work are not allowed unless unanticipated deficiencies are found during the rehabilitation which will cause further damage to the home if not addressed.
- Any changes to the scope of work, including the reason for the change, must be documented in the file.
- In the event that a change order occurs, post-closing modification requirements must be met as referenced in Section 7.02 of this Procedural Manual.

5.09 Sworn Construction Statement and Lien Waivers

General contractors are required to execute a Sworn Construction Statement.

The Lenders must obtain lien waivers for all work performed and all materials supplied by:

- The general contractor(s);
- Subcontractors; and
- Materials supplier(s).

Upon completion of rehabilitation, the Lender and the Borrower must execute the Completion Certificate provided by Minnesota Housing. Rehabilitation must be completed within 9 months of loan closing unless Minnesota Housing issues a written extension.

5.10 Homeowner Labor

- Homeowner labor is permitted provided the Lender is satisfied the Borrower is capable of and willing to perform the labor.
- Borrower must execute a Work Program Agreement.
- The materials list must include evidence of the actual cost of the materials required to complete the necessary improvements.
- The Lender must perform at least one interim inspection in addition to the initial and final inspections otherwise required.

- The Borrower may not pay or be reimbursed for the cost of labor performed by the Borrower or other household residents.
- Disbursements of funds by the Borrower and to the Borrower are not permitted under this Program.

5.11 Eligible Rehabilitation Improvements

Eligible rehabilitation improvements must be directly related to the habitability or safety of the home and be of average or medium grade or quality. Eligible improvements include, but are not limited to:

- Accessibility-related improvements;
- Energy efficiency-related improvements;
- Lead hazard mitigation;
- Radon mitigation;
- Smoke detectors/alarms;
- CO alarms;
- Structural improvements;
- Electrical improvements;
- Plumbing improvements;
- Drainage, grading, and gutters;
- Roofing, soffits, and fascia,
- Siding;
- Windows and doors;
- Insulation;
- Furnaces and other heating systems;
- Wall and ceiling repair;
- Flooring; and
- Other improvements as approved in writing by Minnesota Housing.

The following rehabilitation improvements are eligible only under the circumstances described below. Prior written approval is not necessary to complete the improvements below if the circumstances described are met. The Lender must document in the file that the improvement was necessary due to one or more of the circumstances below.

- Replacement of kitchen cabinets or bathroom vanities when an accessibility need exists; lead hazards cannot be addressed any other way; the repair of existing cabinets or vanities is not feasible or cost reasonable; or, existing kitchen cabinets do not allow for adequate food storage.
- Replacement of kitchen counter tops when an accessibility need exists, the existing countertop presents a clear health or safety hazard; or there is not adequate space for food preparation.
- Replacement of decorative trim when lead hazard reduction is required.

- Work on existing garages when a medical or accessibility need exists; lead hazard reduction is required; or, required by the local building code and evidence of the code violation is presented.
- Reconstruction of existing garages when a medical or accessibility need exists.
- Demolition of outbuildings when lead hazard reduction is required; or required by the local building code and evidence of the code violation is presented.
- Construction or reconstruction of sidewalks and driveways when existing conditions present a clear and imminent safety hazard. Repair is limited to the portion of sidewalks and driveways on the Borrower's property.
- New central air conditioner installation when a medical or accessibility need exists.
- Walk-in bathtubs when a medical or accessibility need exists.

Home Additions are reviewed on a case by case basis and are rarely approved by Minnesota Housing. The following list details circumstances under which Minnesota Housing might approve a Home Addition:

- An accessibility-related Home Addition when a medical/physical need exists.
- A bathroom Home Addition when the home has an inadequate bathroom.
- A kitchen Home Addition when the home's existing kitchen facilities are a health or safety hazard.
- A bedroom Home Addition when over-crowding exists. Over-crowding exists when there is an average of more than one person per room (excluding the bathroom and kitchen).

The Lender must demonstrate that alternative remedies have been evaluated and are not feasible. However, any approval must be in writing and is at Minnesota Housing's sole discretion.

5.12 Ineligible Rehabilitation Improvements

Ineligible rehabilitation improvements include but are not limited to:

- Construction of garages (except when a medical or an accessibility need exists);
- Installation of new decorative trim (except when replacement of existing decorative trim is necessary for lead hazard reduction);
- Hard-wired microwave ovens;
- "Luxury" improvements, which are improvements of a type exceeding that customarily used in the locality for properties of the same type as the property to be rehabilitated (swimming pool, outdoor hot tub, etc.);
- Public improvement assessments;
- Improvements that do not become a part of the real property, including but not limited to, appliances such as freestanding refrigerators and stoves; and
- Any improvements already in place.

Loan proceeds may not be used to pay off any existing debt.

5.13 Non-Complying Loans

Minnesota Housing shall have the right to take one or more of the following actions in the event the Lender submits a loan that does not, as determined by Minnesota Housing, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Lender to repurchase the loan for the outstanding balance and any fees paid to the Lender;
- Terminate, suspend, or otherwise limit the Participation Agreement with Minnesota Housing; or
- Preclude the Lender from future participation in Minnesota Housing programs.

5.14 Repurchase of Loans

Minnesota Housing at its option, may tender any loan to the Lender for repurchase if:

- Any representation or warranty of the Lender or the Borrower with respect to the loan is determined by Minnesota Housing to be materially incorrect; or
- The loan is not in compliance with any term or condition set forth in the Participation Agreement and this Procedural Manual.

Upon written notice of repurchase by Minnesota Housing, the Lender has ten business days to submit payment to Minnesota Housing for the unpaid principal balance, fees paid to the Lender in the sale of the loan and reasonable expenses incurred by Minnesota Housing, including attorney's fees. Failure to comply with this requirement may result in the termination, suspension, further legal action or otherwise limit the Lender's Participation Agreement with Minnesota Housing.

Chapter 6 – Commitment/Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program or initiative during any business day such as:

- A maximum dollar amount the Lender may commit; or
- A maximum number of individual Commitments the Lender may commit.

The Lender commits funds on a first-come, first-served basis.

Individual Commitments are to be considered as “forward Commitments” by the Lender. It is expected that the loan will be closed within the commitment period and delivered to Minnesota Housing for purchase.

6.01 Loan Commitments

In order to obtain a Commitment to reserve funds under the Program the Lender must:

- Reserve the loan using the Loan Commitment System.
- Commitments are valid for 120 days. All Commitments will be automatically cancelled at day 121. Extensions are approved at Minnesota Housing’s sole discretion.
- Loans must meet eligibility requirements and gain a status of Purchase Approval via the Loan Commitment System no later than the last day a Commitment is valid.

6.02 Modifying a Commitment

- Changes to a loan must be updated in the Loan Commitment System and will be evaluated for compliance with Program eligibility requirements.
- Any qualifying Commitment change will not alter the Commitment period originally established.
- Changes to Commitments involving the Borrower and/or the property address are not permitted.
- An increase in the loan amount will be allowed only if funds are available to accommodate the change.

6.03 Canceling a Commitment

Minnesota Housing requires the Lender to cancel any Commitment of funds that will not be used for the specified loan.

6.04 Minnesota Housing Disbursement of Funds

Minnesota Housing will purchase loans that, by the daily cutoff time, have been Purchase Approved in the Loan Commitment System. One hundred percent of the loan amount plus the Lender fee will be disbursed two business days after the loan has been purchased by Minnesota Housing.

The Lender Certificate with details of each purchase transaction will be available to the Lender via the Loan Commitment System after the loan has been purchased by Minnesota Housing.

6.05 Loan Purchase Corrections

If it is determined that an adjustment to the purchase price of any purchased loan is necessary, the Lender will be invoiced for any funds to be returned or Minnesota Housing will disburse the necessary funds to the Lender.

Chapter 7 – Documentation Requirements

7.01 Loan Processing and Closing

All loans submitted to Minnesota Housing must meet the following requirements:

- Loans must be closed and required pre-close review documents must be reviewed for compliance by Minnesota Housing prior to completing the True and Certify process in the Loan Commitment System.
- Minnesota Housing forms must be used and may not be altered in any way.
- All loan documents must be complete, accurate and reviewed by the Lender at the various and appropriate stages of the loan.
- All mortgage assignments must run directly from the Lender to Minnesota Housing and use the Minnesota Uniform Conveyancing Blank.
- All mortgages and assignments must be recorded by the appropriate offices:
 - Abstract Property – County Recorder’s Office
 - Torrens Property – Registrar of Titles
 - Tribal government and Bureau of Indian Affairs
 - Manufactured Homes taxed as personal property and located within a Manufactured Home park require a completed Public Safety Form 2017 (PS2017) recorded with the Department of Public Safety. The form should indicate Minnesota Housing Finance Agency as the secured party and list Minnesota Housing’s address. 400 Wabasha Street North, Suite 400, St. Paul MN 55102.

7.02 Loan Modification and Loan Corrections

The Lender must contact Minnesota Housing for documentation and process instructions, including utilizing the Rehabilitation Loan Program Modification of Note and Mortgage Agreement, and/or Rehabilitation Loan Program Modification of Note and Manufactured Home Security Agreement, in the event of loan amount corrections and/or modifications that occur after loan closing and/or after the loan has been recorded.

7.03 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the Loan Transmittal Form detailing specific documentation/delivery requirements.

The Lender must fully execute and deliver documents within designated timeframes as outlined on the Loan Transmittal form. In addition, the Lender must specifically warrant that all applicable documentation has been obtained and reviewed to determine compliance with all Minnesota Housing requirements.

Documentation not delivered to Minnesota Housing/servicer within the specified time frames, may result, at Minnesota Housing’s discretion, in the Lender being required to repurchase the loan, or any such remedy as identified in this Procedural Manual or allowed by law. Minnesota Housing may also, at its discretion, extend the timeframes.

7.04 Documentation Requirements

The Lenders participating in the Program are required to track all applicants and maintain sufficient documentation to show compliance with federal Fair Housing laws. The following data must be gathered for each transaction:

- Application date;
- Applicant's full name;
- Applicant's race/ethnicity;
- Single head of household information; and
- Reason the loan commitment is canceled, if applicable.

7.05 Records Retention

The Lender must retain all loan documents in compliance with federal regulatory guidelines. The Lender is required to make loan records available for inspection by Minnesota Housing for a period of six (6) years after the loan is sold to Minnesota Housing. Those records that may be requested by Minnesota Housing include, but are not limited to:

- Credit related documents (e.g. paystubs, tax returns, income statements, documentation of assets, etc.);
- Compliance related documents (e.g. Borrower application, Loan Estimate (or its alternative form), Closing Disclosure (or its alternative form), Affiliated Business Arrangement documents, evidence of compliance with the Bank Secrecy/Anti-Money Laundering Act, etc.);
- Property related documents (e.g. scope of work, bids, lien waivers, change orders, fees, building permits and completion certificates, evidence of compliance with rehabilitation and lead-based paint standards, etc.); and
- Collateral documents (e.g. title work or O&E reports, evidence of property ownership, a copy of the fully executed Note, a copy of the fully executed and recorded Mortgage, a copy of the fully executed recorded Assignment of Mortgage to Minnesota Housing, etc.).

Chapter 8 – Servicing

8.01 Servicing

Upon purchase of the loan by Minnesota Housing, the Lender must deliver documents outlined in the Loan Transmittal form to the Minnesota Housing servicer. Until the loan is purchased, the Lender assumes all loan servicing responsibilities.

8.02 Delivery of Loans to Servicer

The Lender must forward the loan package according to the requirements outlined in the Loan Transmittal form to the servicer by mail within five calendar days of Minnesota Housing's purchase of the loan. Upon receipt of the recorded mortgage, the Lender must ensure the original document is delivered to the servicer within ten business days.

Appendix A: Definitions

TERM	DEFINITION
Accommodation Parties	An owner of the property who is not a Borrower on the note, such as a non-purchasing spouse.
Borrower	The recipient of loan funds from the Program.
Commitment	A Commitment of funds from Minnesota Housing with specific terms and conditions applied to a specific Borrower and a specific property.
Construction Alteration (Manufactured Housing)	Pursuant to the Minnesota State Building Code (Minnesota Rules Part 1350.0100) "... replacement, addition, modification or removal of any equipment or installation which may affect the construction, plumbing, heating, cooling, fuel-burning system, electrical system or the functioning of any of these in manufactured homes subject to the code".
Home Addition	The addition of livable space which is achieved through an actual expansion of square footage to the home, or by finishing off unfinished or partially unfinished square footage in an existing area of the home.
Lender	A lender under contract to participate in the Program.
Manufactured Home	A dwelling structure not permanently affixed to a real property and used as a permanent living accommodation.
Minnesota Housing	Refers to Minnesota Housing Finance Agency.
Participation Agreement	The contract executed between the Lenders and Minnesota Housing that defines the terms in which the Lender agrees to participate in the Program.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Program	Refers to the Rehabilitation Loan Program.
Rehabilitation Standard	Refers to the Single Family Rehabilitation Standard form.
Repair (Manufactured Housing)	Any improvement other than those outlined in the definition of Construction Alteration including, (according to Minnesota State Building Code (Minnesota Rules Part 1350.3800)) "repairs with approved components or parts; conversion of listed fuel-burning appliances in accordance with the terms of their listing, adjustment and maintenance of equipment or replacement of equipment in kind."

Appendix B: Forms List

All forms listed in Appendix B should be fully executed, as applicable, and maintained in the loan file by the Lender. Forms may be found on the [Forms Guide and Glossary](#). See the [Loan File Requirements Checklist](#) for additional documentation requirements.

- Authorization to Disclose Health Information (as needed)
- Bid Summary Form
- Borrower Application
- Change Order (as needed)
- Completion Certificate
- Commitment Request Form (as needed)
- Assignment of Mortgage - Department of Commerce - MN Uniform Conveyancing Blanks (as needed)
- Income Eligibility Calculation Worksheet
- Final Affidavit of Receipt of Lead Reports (as needed)
- Green Communities Scope of Work Addendum
- Homeowner Agreement
- Loan Transmittal
- Loan Submission Worksheet
- Mortgage
- Note
- Note and Manufactured Home Security Agreement (as needed)
- Proceed to Work Notice
- Privacy Act Notice
- Rehabilitation Loan Program Loan Transmittal
- Modification of Note and Mortgage Agreement (as needed)
- Modification of Note and Manufactured Home Security Agreement (as needed)
- Single Family Rehabilitation Standard
- Tennessen Warning
- Work Program Agreement (as needed)