



Affordable Rental Investment Fund Program (ARIF)

(No funding available - guide for compliance
purposes)

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Chapter 1 – Program Purpose and Background

The 1993 session of the Minnesota Legislature appropriated funds and authorized the Minnesota Housing Finance Agency (Minnesota Housing) to develop an Affordable Rental Investment Fund Program (ARIF). The purpose of the program is to provide a funding mechanism to assist in the provision of more affordable permanent rental housing to households in Minnesota with incomes below 80 percent of state median income. The thrust of this program however, is to provide truly affordable rents to lower income households, and the program has been designed to require rents much below this level.

The Agency's authority to develop such a program is provided in Minnesota Statute Section 462A.21, Subd. 8b, which allows the establishment of family rental housing programs to provide loans for housing for families with incomes of up to 80 percent of state median income, as amended in 1995.

In initial development of ARIF, Agency staff also took into consideration the data compiled in the Statewide Comprehensive Housing Affordability Strategy (CHAS) for Federal Fiscal Years 1994-1998 and held focus group meetings throughout the state to gather input from for profit and non-profit developers as well as public entities.

In general, the CHAS sets forth a five year strategy to increase the supply of decent, safe and permanent rental housing units affordable to low- and very low-income families and individuals by way of:

- Creating additional units of more affordable housing
- Increasing resources aimed at maintaining and preserving the existing affordable rental housing stock
- Closely targeting resources for new construction to areas with the greatest need due to economic growth and market demand, with a priority for large families and single individuals

Legislation enacted in 1995 requires that to the extent practicable, the appropriated funds be used so that an approximate equal number of units are financed in the metropolitan area (includes the counties of Anoka; Carver; Dakota, excluding the city of Northfield; Hennepin, excluding the city of Hanover; Ramsey; Scott, excluding the city of New Prague; and Washington) and in the non-metropolitan area.

Additionally, the 1995 legislation requires the Agency to collaborate with the Metropolitan Council and groups in the various funding regions to identify and develop priorities for the funding of affordable housing in those regions.

In addition to the priorities identified through the collaborative efforts with the Metropolitan Council and the regions, the Agency must give preference to economically viable projects that receive financial assistance from units of local government, area employers and the private sector. In metropolitan areas, consideration must also be given to the availability of transportation and job training efforts in the community.

Chapter 2 – Concept and Interaction with other Funding Sources

As previously stated, the purpose of this program is to provide a funding mechanism to assist in the provision of more affordable permanent rental housing to low-income households. The funds may be utilized to provide gap financing or first mortgage loans.

As mentioned, preference will be given to economically viable projects that combine this program with financial assistance from local governments, the private sector and area employers. Depending upon the combination of financing sources used, the most restrictive requirements will govern in terms of the loan.

Agency underwriting parameters for all developments will include analysis of financial feasibility, development costs, and review of management, marketability, and architectural requirements, etc. If there is no amortized debt, the Agency will assume the first mortgage position. Where first mortgage financing is being provided, additional requirements will be based upon the level of assistance requested.

Chapter 3 – Eligibility Criteria

3.01 Owner/Sponsor

Eligible applicants include natural persons, limited-profit and non-profit entities, Minnesota cities and housing and redevelopment authorities.

If first mortgage financing is secured through some source other than the Agency, the lender and owner will be responsible for annually certifying to the Agency that the Agency's limited profit requirements are being complied with.

For-profit entities are eligible to develop projects consisting of rehabilitation of existing rental housing meeting the affordability criteria of this program.

3.02 Use and Level of Funding

Eligible Uses of Funds.

- Acquisition and/or rehabilitation, or new construction of permanent rental housing with a minimum of four units.
- Single family and duplex properties would be allowed in scattered site developments within a city or neighborhood with a minimum of four units total.
- Temporary uses such as shelters, transitional housing or residential hotels are not eligible for funding under this program.
- Occupancy will not be restricted to persons 55 years or older. The housing must be marketed for general occupancy and families. Priority will be given to families needing large units.

Activity Type – Rehabilitation. In the rehabilitation of existing rental housing, both partially assisted (i.e., where there is a mix of rent and income levels and only a portion of the total units meet ARIF rent and income requirements) and fully assisted (i.e., all units in the development meet ARIF rent and income requirements) developments are eligible for assistance. In a mixed income development, only the units that meet the rent and income affordability requirements of this program will be funded with these Agency funds. The level of funding will be prorated based on square footage, level of amenities, etc. of the assisted units compared to that of non-assisted units.

Rents may be reduced on a portion or all of the units to meet the rent requirements and/or to make the rents more affordable.

Activity Type - New Construction. For new construction developments, both partially and fully assisted developments (as defined in paragraph 2. above) are eligible for funding.

An emphasis is placed on housing for large families (three or more bedrooms per unit) and single individuals (efficiency and one bedroom units); however, the need for two bedroom units will be considered with the submittal of sufficient supporting documentation of the need for additional two bedroom units in the area.

In rural areas, new construction will be allowed within areas of commuting distance of the economic growth area. City sewer and water is required for all new construction proposals. The agency will review the availability of city sewer and utility lines to the development without substantial extensions.

For all new construction proposals, the need for construction of new rental housing units must be demonstrated by sufficient supporting documentation from the local government or other sources, such as: in the seven county metropolitan area, negotiated housing goals with Metropolitan Council, housing and redevelopment authority studies, independent market studies, CHAS plans, etc.

Level of Funding. There are no prescribed funding limits with these funds; however, priority will be given to proposals in which these funds would be leveraged with other public, private and area employer contributions.

In addition, the Agency will review the cost reasonableness on a per-unit and total development cost basis. The Agency will also analyze the developmental and operational costs to determine the amount of funds provided to the development is not more than is necessary to make the development financially feasible. Funding for general improvements to the property (e.g., roof, heating system, siding, etc.) would be determined based upon percentage of assisted units.

The Agency may modify the proposal, or if after Agency analysis, it is determined that costs are unreasonable, developments will not be funded and applications will be returned to the applicant.

3.03 Design and Construction Review

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

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

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

Depending upon the level of rehabilitation activity, the Agency may require the preparation of design and construction documents by an appropriate licensed design professional.

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

Ineligible improvements/costs include but are not limited to: installation of swimming pools, hot tubs, fireplaces or wood burning stoves; sweat equity for the borrower's own labor; work completed and materials purchased prior to commitment; equipment and furnishings not considered part of the real estate; prefunded reserve accounts; asset coordination fee.

Construction of new garages will be reviewed on a case-by-case basis. Decisions to fund the construction of new garages will be based upon marketability of the units, cost of the garages in comparison to the whole, other rehabilitation/construction priorities, etc.

3.04 Occupancy Requirements

Income Requirements. Units assisted with ARIF funds must be initially occupied by households with incomes up to 80 percent of state median income, not adjusted by family size. [See current income requirements.](#)

Economic Integration. Integration of economically diverse households is encouraged. Property owners must not refuse to rent to a household solely on the basis of the household's Section 8 status.

In existing rental properties, there may be a mixture of qualifying and non-qualifying household incomes. These developments are eligible; however, the level of funding will be prorated as specified in Section III.B.2.

There are no income limits for non-assisted units in a mixed income development, unless dictated by another source of funding.

Minimum Term. The income and occupancy conditions for the assisted units are in effect for the life of the mortgage.

Monitoring. The income and occupancy requirements will be monitored by the Agency for the length of the 30 year mortgage.

Initially, for acquisition and/or rehabilitation, the borrower will be required to contact each household prior to mortgage commitment and have them disclose their income on a tenant income verification form. Household incomes for all assisted units will be reviewed for compliance.

As assisted units become vacant, incomes of new households occupying those units will be verified and analyzed on an annual basis.

In some instances there may be additional income requirements due to other funding sources.

3.05 Rent Requirements

Maximum Gross Rents.

- **Greater Minnesota:** Maximum gross rents (contract rent plus tenant paid utility allowance) for assisted units must not exceed 30 percent of 50 percent of statewide median income adjusted

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by unit size. In areas with low incomes and market rents, the Agency will not approve rents at maximum program limits.

- **Seven County Metro Area:** Maximum gross rents (contract rent plus tenant paid utility allowance) for assisted units must not exceed the lesser of the Fair Market Rent or 30 percent of 50 percent of metro area median income.

Rents in existing developments may be reduced on a portion or all of the units to meet the rent requirements and/or to make the rents more affordable. [See current gross rent limits.](#)

Minimum Rents. Gross rents must not be lower than 30 percent of 30 percent of area median income by unit size.

Monitoring. Rent requirements will be monitored by the Agency for the length of the mortgage.

Chapter 4 – General Deferred Loan Characteristics

4.01 Mortgage Interest Rate and Term

First mortgage or subordinated loan with a 0 percent annual interest rate with principal due and payable at the end of the 30 year term.

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

Construction financing is available with first mortgage loans and is based upon the mortgage amount and subject to Agency draw procedures.

4.02 Transfers of Ownership/Prepayment

Transfers of Ownership. The mortgage may be assumed contingent upon:

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

Prepayment. The mortgage may be prepaid in full at anytime.

4.03 Return on Equity

Developer's return on equity is defined as follows:

- Limited Return: Agency statutes currently allow a maximum return of 10 percent based on actual developer equity for new construction of units on which the Agency has a mortgage.
- No Limit on Return: Agency statutes allow that entities undertaking a development consisting of the rehabilitation of an existing rental housing property are not limited to return.

4.04 Management and Operation

Management and Operating Budget. The budget submitted in the application will be reviewed and compared to budgets of comparable Agency financed developments. Agency comparables will be used in the underwriting of the loan and used to project long-term operating costs that will protect the long-term investment being made by the owner.

The Agency reserves the right to reject or adjust the operating and maintenance figures based upon the information supplied, specific development type, circumstances and/or significant changes to the economics of the development's current market place.

Utilization of Units. All units must be rented to family sizes appropriate to the unit size with a ratio of at least one person per bedroom. If during the course of tenancy a family size changes, a household may submit a written request to the management agent to transfer to another unit or be placed on a waiting

list for such transfer. In the event of a decrease in family size, the household may be required to move into the next available suitably sized smaller unit.

Marketing. Owner/agent must demonstrate that they have established networks and linkages necessary for residents to maintain housing stability.

4.05 Monitoring and Reporting Requirements

The Agency actively monitors each development it finances. This includes monitoring of tenant incomes, rents, affirmative action and equal opportunity requirements, and year-end operating reports. The forms can be found on the Agency's website

As assisted units become vacant, they must be leased to qualified households who must disclose their income at initial occupancy on an Initial Occupancy Statement by Tenant form, as provided by the Agency. This form will be used to ensure that tenants are qualified to occupy the assisted unit. In addition, this form will assist in completion of annual reporting of demographic data as requested by the Agency through a Characteristics of Tenant Households form for program evaluation.

Additionally, a Data Practices Act Disclosure Statement will be required for each household that occupies an assisted unit. This information is necessary for the administration and management of state or federal programs that provide housing for low- and moderate-income families.

Chapter 5 – Contract Compliance and Equal Opportunity

5.01 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.

5.02 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.

5.03 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.

5.04 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.

5.05 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.

5.06 Equal Opportunity Laws/Rules

The operations of Minnesota Housing are regulated by the following Equal Opportunity Laws/Rules:

- Executive Order 11246 (Affirmative Action Requirements, Federal and Federally derived contracts)
- Executive Order 11625 (Minority Business Enterprises)
- The Civil Rights Act of 1964 (Title VII)
- Equal Employment Act of 1972

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- The Americans with Disability Act of 1990
- Section 504 of the Rehabilitation Act of 1973 as amended
- Minnesota Human Rights Act (Section 363.073)
- Fair Housing Amendments Act of 1988

Chapter 6 – Fair Housing Policy

It is the policy of Minnesota Housing to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to Minnesota Housing programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, familial status, gender identity or sexual orientation.

Minnesota Housing's fair housing policy incorporates the requirements of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988, as well as the Minnesota Human Rights Act. Housing providers are expected to comply with the applicable statutes, regulations, and related policy guidance. Housing providers should ensure that admissions, occupancy, marketing and operating procedures comply with non-discrimination requirements.

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

- Discriminate in the selection/acceptance of applicants in the rental of housing units;
- Discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- Engage in any conduct relating to the provision of housing that otherwise make unavailable or denies the rental of a dwelling unit;
- Make, print or publish (or cause to make, print or publish) notices, statements or advertisements that indicate preferences or limitations based on protected class status;
- Represent a dwelling is not available when it is in fact available;
- Deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions of membership or participation; or
- Engage in harassment or quid pro quo negotiations related to the rental of a dwelling unit.

Minnesota Housing has a commitment to affirmatively further fair housing for individuals with disabilities by promoting the accessibility requirements set out in the Fair Housing Act, which establish design and construction mandates for covered multifamily dwellings and requires housing providers to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

Applicants will be required to submit an Affirmative Fair Housing Marketing Plan at the time of application, to update the plan regularly and to use affirmative fair housing marketing practices in soliciting renters, determining eligibility and concluding all transactions.

As a condition of funding through Minnesota Housing, housing providers are not permitted to refuse to lease a unit to, or discriminate against, a prospective resident solely because the prospective resident has a Housing Choice Voucher or other form of tenant-based rental assistance.

Chapter 7 – Allocation of Funds

1995 legislation requires that to the extent practicable, funds must be used so that an approximate equal number of housing units are financed in the metropolitan area and in the non-metropolitan area.

This program is part of the Agency's Concept Based Multifamily RFP in which Requests for Proposals for multiple programs will be issued and applications are submitted for a proposed development concept. The Agency will review all proposals submitted and will attempt to make the best and most appropriate funding choices for each development selected.

Chapter 8 – Program Contact

Contact Renee Dickinson, Compliance Manager, at 651.296.9491 or the Housing Development Officer identified in your selection letter for questions concerning this program.