

# Minneapolis Homes: Financing Program Manual V.4

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## ***Chapter 1: Introduction***

### 1.01 Organization Structure and Mission Statement

The City of Minneapolis Community Planning and Economic Development (CPED) department has a mission to grow a vibrant, livable, safely built city for everyone. To achieve CPED's mission, CPED's Housing Policy and Development division works on the following division goals:

1. Increase housing supply, diversity and affordability in all neighborhoods
2. Produce more affordable rental housing and preserve subsidized affordable rental housing, for 30 years or more
3. Preserve unsubsidized naturally occurring affordable housing (NOAH)
4. Improve and sustain access to homeownership, especially among low-income and Black, Indigenous, People of Color, and Immigrant (BIPOC) residents
5. Support renters
6. Prevent and end homelessness
7. Maximize potential of publicly-owned land to meet City housing goals

CPED's Residential and Real Estate Development work unit is a subdivision of CPED's Housing division that focuses on 1-20 unit development and management of City of Minneapolis land banked inventory purchased by CPED. Minneapolis Homes: Financing is consistent with the CPED Housing Policy and Development core housing values to (1) Advance Racial Equity, (2) Expand Opportunity, (3) Prevent Displacement, (4) Prioritize Resources, and (5) Develop Sustainably.

### 1.02 Background

Minneapolis Homes: Financing is the umbrella name for a variety of 1-20 unit housing strategies including new construction, rehabilitation, down payment assistance, and stabilization of owner occupied units. The program is funded through resources from the City of Minneapolis and its funding partners.

### 1.03 Minneapolis Homes: Financing Program Goal

To maintain and/or increase the supply of affordable, 1-20 unit housing in neighborhoods and communities throughout the City of Minneapolis and reduce racial disparities in homeownership.

### 1.04 Eligible Applicants

Eligible Applicants include for-profit organizations, non-profit organizations, government entities, and individuals.

All applicants must demonstrate:

- The Applicant cannot be an owner of a property that is a registered vacant building on the [City of Minneapolis 249 list](#), tax delinquent property, or property with significant code or rental license violations, unless the property is currently in the process of being rehabilitated in compliance with a restoration agreement or has a similar solution that is actively being implemented.
- The Applicant cannot have an uncured default on a City of Minneapolis restoration agreement and/or redevelopment contract to rehabilitate or construct a property.

For new construction and rehabilitation projects, Applicants must demonstrate:

- Experience successfully completing a similar project within the last two years.
- Capacity to pay for the proposed acquisition and improvements on the proposed property.
- The Applicant cannot be an owner of a property that is a registered vacant building on the [City of Minneapolis 249 list](#), tax delinquent property, or property with significant code or rental license violations, unless the property is currently in the process of being rehabilitated in compliance with a restoration agreement or has a similar solution that is actively being implemented.
- The Applicant cannot have an uncured default on a City of Minneapolis restoration agreement and/or redevelopment contract to rehabilitate or construct a property.

#### 1.05 Award Process

Minneapolis Homes: Financing is offered through a competitive Notice of Funding Availability (NOFA) application process as often as funding resources allow; typically on a yearly basis in the fall of each year. Please refer to the Minneapolis Homes: Financing NOFA posted on CPED's website for fund availability and deadlines.

#### 1.06 HUD HOME Funded Projects

If receiving HOME funds refer to the HUD HOME Funds Guidelines Appendix.

#### 1.07 Community Housing Development Organization (CHDO) Certification *Optional*

The Minneapolis Homes: Financing program utilizes federal HOME funds, which are allocated annually by HUD. Applicants have an option to become certified as a Community Housing Development Organization (CHDO), as defined in 24 CFR 92.2 through the MHF NOFA. Per the HOME Final Rule, the City must set aside a percentage of its overall HOME allocation to CHDO certified organizations.

#### 1.08 Community Based Development Organization (CBDO) Certification *Optional*

The Community Development Block Grant (CDBG) funding source requires that new construction activities are performed by a certified CBDO, as defined in CFR 570.204. Developers have the option to be certified through the MHF NOFA. Certified organizations are eligible for CDBG funding for new construction activities. CDBG funded rehabilitation can be done without CBDO certification.

## ***Chapter 2: Responsibilities and Warranties***

#### 2.01 Program Manual

This Program Manual, including subsequent changes and additions, is a supplement to the Financing Contract executed between the City of Minneapolis and the Applicant. It is incorporated into the Financing Contract by reference. The City of Minneapolis reserves the right to alter, waive, or impose additional requirements and to amend any or all materials effective as of the date of issue unless otherwise stated.

#### 2.02 Financing Contract

Approved Minneapolis Homes proposals will require a Financing Contract that is unique to each approved housing project.

### 2.03 Unauthorized Compensation

The Applicant who acts as the developer, realtor, or general contractor may receive fees as outlined in this Program Manual. However, the Applicant shall not receive or demand from the builder, remodeler, contractor, supplier, or household:

- Kickbacks
- Commissions
- Rebates
- Other compensation

In order to reduce the total development cost associated with an eligible Property, an Applicant may receive discounts from the seller, builder, remodeler, contractor, or supplier. In these cases, the Applicant must document this in its file and be appropriately represented on the final proforma as a source.

### 2.04 Audit and Monitoring

The Applicant is required to keep on file a complete copy of all documents for each activity completed, even if not requested during development. The City of Minneapolis reserves the right to make site visits or conduct an audit related to all Project files utilizing any Minneapolis Homes: Financing to determine program compliance and respond to external funder requests. For a list of documentation requirements, see Appendix A.

### 2.05 Standard City Contract Requirements

The selected Applicant will be required to enter into a Financing Contract with the City that will contain standard City requirements such as insurance, indemnification and provisions to ensure redevelopment of the Property, e.g., construction and financing plan approval prior to closing, transfer and encumbrance limitations prior to completion, and reversionary rights, if applicable. Other requirements vary depending upon the type of project and the source and amount of public investment, if any.

The following list is not exhaustive. Applicants unfamiliar with these standard requirements are urged to seek further information from City staff.

**Equal opportunity (affirmative action and nondiscrimination).** The selected Applicant will be required to comply and ensure contractors comply with applicable provisions of Chapters 139 and 141 (Title 7, Civil Rights), Minneapolis Code of Ordinances, and other applicable federal, state and local regulations, statutes and ordinances pertaining to civil rights and nondiscrimination.

**Small and Underutilized Business Program.** Development projects that receive public financial assistance over \$175,000 must comply with Chapter 423 of the Minneapolis Code of Ordinances, which requires “good faith efforts” to meet goals for the use of businesses owned by women and minorities in construction and professional services. A list of certified businesses can be obtained by contacting the Small and Underutilized Business Program at 612- 673-3076 or at [www.mnucp.metc.state.mn.us](http://www.mnucp.metc.state.mn.us).

**Section 3.** An Applicant who receives more than \$200,000 of federal HOME, CDBG or NSP funds from the City of Minneapolis for any individual project within the past year and any contractor or subcontractor with a contract on such covered projects in excess of \$100,000 are subject to the Section 3 requirements outlined in 24 C.F.R. Part 135. The Section 3 program requires that recipients of certain HUD financial assistance, to the greatest extent possible, provide training, employment, contracting and other economic opportunities to low- and very low-income persons, especially recipients of government assistance for housing, and to businesses that provide economic opportunities to low- and very low-income persons.

**Zoning Responsibility.** It is the selected Applicant’s responsibility to undertake and finance any rezoning, variance and use permits necessary for approval of the proposed development. Applicants should confirm their plans for a project site meet zoning requirements or if rezoning, variances, or use permits are necessary prior to application by contacting Minneapolis 311.

**Utilities.** It is the selected Applicant’s responsibility to identify the locations of and provide for the installation of electricity, gas, water, sewer service and other utilities servicing the site from the public mains to the individual units.

**Construction Standards.** Development must meet all Minneapolis City codes, and projects will be reviewed for energy efficiency.

**Hold Harmless.** The selected Applicant shall agree to defend, indemnify and hold the City harmless from any and all claims or lawsuits that may arise from the Applicant’s activities under the provisions of the redevelopment contract, that are attributable to the acts or omissions, including breach of specific contractual duties of the Applicant or the Applicant’s independent contractors, agents, employees or officers.

### ***Chapter 3: Property Eligibility Criteria***

#### 3.01 Property Eligibility

Properties available for funding through the Minneapolis Homes program are vacant lots, vacant structures, or occupied homes (stabilization only).

Either the City or Applicant may identify a property for inclusion in the Program. After the identification of a property for inclusion and review of eligibility, City staff will authorize its inclusion into the Program. Property must be within the boundaries of the City of Minneapolis and the Applicant must demonstrate site control for non-City-owned properties. Site control is not a requirement for stabilization proposals.

Acquisition methods:

- Applicants may acquire City-owned property through the NOFA process, develop property already owned, or acquire property. Applicants that acquire privately-owned vacant buildings must certify vacancy occurred prior to the application.
- Applicants may identify eligible occupied properties to acquire for inclusion in the Program with the identified purpose of rehabilitation and stabilization for the current income-eligible occupants. Applicants that acquire privately-owned occupied buildings must provide a plan to sustain homeownership for current occupants. The current occupant must qualify as eligible borrowers according to the HUD part 5 income requirements. Involuntary displacement and relocation is NOT an eligible activity in the program.
- The City of Minneapolis may directly develop a property in its inventory. In those cases, the City retains ownership during the rehabilitation/construction period. A developer may be contracted to act as a construction manager. The contracted developer will need to provide the scope of work, monitor construction, certify pay application requests from the general contractor, and facilitate project sale to an eligible owner-occupant. Licensed general contractors will be selected through a sealed bid process conducted by the City to complete the project. The City will provide financing required for the project within the allowable program limits and the developer will be compensated a flat fee of \$10,000 per project.

### 3.02 City-owned Property Preparation

This section applies to City-owned property only. The City of Minneapolis will ensure that:

- Properties have marketable title
- Properties are valued within six months of offering for sale

#### 3.02a Environmental Hazards

The City of Minneapolis does not identify or abate all environmental hazards present in vacant structures or vacant lots. Purchasers are encouraged to research potential hazards and their treatment and all visits to and purchases of a property are at the purchaser's risk. Visit the [Minnesota Department of Health website](#) for more information about safety precautions, licensed abatement contractors, and mitigation techniques. Purchaser agrees to accept and purchase the property "AS IS WITH ALL FAULTS" and will not rely upon any representations or warranties of any kind whatsoever, express or implied, from the City, its employees, officers, agents or consultants as to any matters concerning the property.

#### 3.02b Unsuitable Soils

Where it can be demonstrated that the City-owned Property contains substantial amounts of Unsuitable Soils, the Purchaser may be reimbursed soil correction expenses in the form of a reduction in the Purchase Price for the property as approved by the CPED Director or City Council. The reimbursement of net sale proceeds cannot reduce the Purchase Price to less than \$1.00.

Unsuitable Soils means abnormal, geotechnically substandard or contaminated soils, which in CPED staff's professional opinion, qualify for soil correction. Such abnormal, substandard or contaminated soils shall include, but are not limited to:

- Soils that contain substantive amounts of loose and/or organic soils
- Demolition debris and rubble
- Abandoned building foundations, pilings, underground utilities and storage tanks
- Illegally dumped and buried materials
- Hazardous wastes, pollutants or contaminants as those terms are defined under any federal, state or local statute, ordinance, code or regulation

It will be the responsibility of the Applicant to obtain soil reports and review the information as part of their due diligence process.

## ***Chapter 4: Development Pathways***

Projects may consist of one to 20 units for ownership housing on a parcel or contiguous parcels within the City of Minneapolis. Projects may not involuntarily displace tenants. All ownership property developed will be subject to the City's Community Preference: Ownership Housing Policy.

There are two pathways to participate in the program activities based on two methods of homeownership assistance through (1) a resale method called Perpetually Affordable Housing (PAH) or (2) Recapture Financing. PAH is used for properties City-wide that require a more considerable purchase price write down of 20% or more of a home's value and are required to be sold through City-approved PAH models to ensure perpetual affordability of the unit sold. Recapture is used for City-owned properties in North Minneapolis (Near North and Camden communities) only when the homebuyer is provided direct buyer assistance of 15% or less of a home's value. Each option has specific allowable activities, geographies, and resale requirements.

#### 4.01 Perpetually Affordable Housing (PAH)

The PAH pathway is for sales to homebuyers where direct assistance to a homebuyer as affordability gap is 20% or more. To ensure a minimum 20% discount is achieved, Applicants may be required to select a lower income tier for the affordable unit. PAH units utilize an equity sharing formula secured by a declaration of restrictive covenants that ensures home affordability is maintained for a 30-year term, and renewed for an additional 30 year term upon each property sale, without the likely need for additional affordability gap subsidy. The City has its own PAH Program that can be used (see the [PAH program guidelines](#) for more information) or the Applicant can propose or partner with an administrator with an alternative equity sharing formula, subject to City approval.

##### 4.01a Eligible Activities:

- **Development of vacant Land:** Any land located in the City of Minneapolis is eligible. Projects resulting in any net loss of units from the immediately prior building on a site are not eligible.
- **Rehabilitation of vacant structures:** Any unoccupied structure in the City of Minneapolis is eligible for rehabilitation. As described in Section 3.01, all structures must be vacant prior to the application.
- **Stabilization of existing occupied units:** Purchase with or without rehabilitation of occupied structures is permitted if all occupants qualify as eligible borrowers and the purpose of acquisition is preservation of existing affordable housing.

##### 4.01b Establishing Sales Price for PAH Projects

The PAH pathway requires that a home be sold for the affordable price or lower. The affordable price is listed in the Minneapolis Homes: Financing Affordable Sales Price chart for the income tier served. If the affordable price discount is not 20% or more than the appraised value, the home must be sold at the lower income tier.

Documentation of sales price is required at two points during the project:

- Broker's price opinion\*: submitted with the request for proposal response, establishing third-party review of the proposed project sale price based on concept plans
- Summary appraisal\*: submitted prior to marketing the property for sale, establishing list price based on the full plans and specifications

\*Stabilization proposals may use the 2021 County Tax Assessed Value in lieu of an Appraisal or BPO at application and are required to obtain an appraisal at closing.

Applicants must use an appraiser from the approved CPED appraiser panel for the Summary appraisal. All properties may not exceed the Minneapolis Home: Financing Affordable Sales Price for the income tier served, which will be posted on the Minneapolis Homes website and are adjusted annually. If receiving NSP funds, the sales price may not also exceed FHA limits and if receiving HOME funds may not exceed the maximum HOME sales price as listed on the Minneapolis Homes: Financing [Ownership Subsidy limits and Sales Limits](#) .

##### 4.01c Stabilization Requirements

###### Occupied units:

Applicants that acquire privately-owned occupied units must provide a plan to sustain homeownership for current occupants. The current occupant of the assisted unit must qualify as eligible borrowers according to HUD part 5 income requirements. Involuntary displacement and relocation is not allowed.

###### Site Control:

Site control is not required for stabilization proposals. The Applicant may apply through the NOFA for a specified funding pool needed to stabilize a specified number of units and close on projects as they are identified. A contractual agreement between the Applicant and existing owner will be required prior to financial closing.



#### Perpetually Affordable Housing (PAH):

Applicants must ensure current occupants acknowledge and agree to placement of their housing unit into the City's Perpetually Affordable Housing (PAH) program or other City-approved perpetually affordable housing model. An acknowledgement letter signed by the owner is required.

#### 4.02 Recapture (Down Payment and Closing Cost Assistance)

Recapture Financing only applies to City-owned property in North Minneapolis communities of Camden and Near North due to the specific combined impacts of the foreclosure crisis and 2011 tornado. Sales to homebuyers where direct assistance to a homebuyer as affordability gap is a minimum of \$1,000, up to 15% of home value; affordability gap funding is secured with a mortgage and note that is deferred at 0% interest and repaid upon sale. Affordability requirements apply only to the first purchaser of the affordable unit.

The full amount of homebuyer down payment and closing cost assistance is a **deferred loan** with 0% interest provided to the Applicant, who then provides funds at closing to the homebuyer. Minneapolis Homes staff will provide a deferred loan note and mortgage for the amount of homebuyer down payment and closing cost assistance that must be executed at the homebuyer closing.

In the event the Applicant fails to provide an executed deferred loan note and mortgage, or the Applicant provides funds at closing to a buyer who does not meet City program requirements or is ineligible for homebuyer down payment and closing cost assistance, Applicant will not be reimbursed for the cost.

Deferred loans must be repaid by the homebuyer/homeowner 30 years from the date of the deferred loan or when one or more of the following conditions apply, as stated in the Minneapolis Homes note and mortgage:

- the Project is sold, transferred, or otherwise conveyed by the borrower
- the borrower ceases to reside in or own the Project as their principal residence
- the date of repayment of the first mortgage

Repayments will come from net proceeds of sale which equals the sales price of a property less senior debt secured against the property and closing costs included on a closing statement. If there are not sufficient net proceeds to repay the entire amount of the City's Affordability Gap Down Payment and Closing Cost Assistance to the borrower, the balance of the assistance may be forgiven, based on approval of the City's Finance Officer. Remaining net proceeds of sale may be retained by the original occupant.

#### 4.02a Eligible Activities:

- **Development of vacant Land:** Only City-owned land located in the North Minneapolis is eligible. Projects resulting in any net loss of units from the immediately prior building on a site are not eligible.
- **Rehabilitation of vacant structures:** Only City-owned unoccupied, non-habitable structures in North Minneapolis are eligible for rehabilitation.

#### 4.02b Establishing Sales Price for Recapture Projects

The property will be sold for the fair market appraised value and homebuyer affordability gap financing cannot exceed 15% of the appraised value. The affordable sales price, which is calculated by taking the fair market appraised value minus any mortgage buy downs, must not exceed the Minneapolis Home: Financing Affordable Sales Price. Documentation of sales price is required at two points during the project:

- Broker’s price opinion: submitted with the request for proposal response, establishing third-party review of the proposed project sale price based on concept plans
- Summary appraisal: submitted prior to marketing the property for sale, establishing list price based on the full plans and specifications

Applicants must use an appraiser from the approved CPED appraiser panel for the Summary appraisal. All other properties may not exceed the FHA mortgage limits, which will be posted on the Minneapolis Homes website and are adjusted annually. Properties that receive HOME funds are restricted to a maximum sales price established annually by HUD, which will be posted on the Minneapolis Homes website.

#### 4.03 New Construction Requirements

##### 4.03a Visitability Design:

- Doors with at least 32 inches of clear space;
- At least one no-step entrance; and
- A half bath, or larger bathroom, on the main level.

Minneapolis Homes staff may consider some instances where visitability design is not achievable. Applicants will be required to provide a narrative providing substantial evidence why visitability design isn’t possible which will be evaluated by Minneapolis Homes staff and may or may not be approved.

##### 4.03b Sustainability Policy:

All newly constructed 1-3 unit homes must comply with the Department of Energy Zero Energy Ready Home program requirements and the Enterprise Green Communities mandatory criteria as modified by the Minnesota Overlay and Guide to the Enterprise Green Communities Criteria. Where a conflict occurs between the two standards, the higher standard will apply. 4-20 unit homes and rehabilitated structures must comply with the Enterprise Green Communities Criteria.

For additional requirements and guidance, refer to:

- [Department of Energy Zero Ready Home Program](#), and
- [Minnesota Housing’s Minnesota Overlay and Guide to the Enterprise Green Communities criteria](#).

It is expected that the Applicant submits the required site plan review application, including uploading the plans in ELMS, prior to financial closing.

#### 4.04 Rehabilitation Requirements

##### 4.04a Rehabilitation Scope of Work:

All newly rehabilitated homes must comply with the required scope of work as outlined by the Department of Community Planning and Economic Development (CPED), see Appendix D. Offers must include a detailed development scope that outlines how the required scope of work will be achieved. If a financing contract is approved by the City Council, the approved Applicant must meet with Minneapolis Homes staff to review and complete a detailed development scope, as needed, to achieve CPED’s required scope of work. After Minneapolis Homes staff approval, the detailed development scope must be submitted at the time of requesting permits for rehabilitation.

#### 4.05 Gap Financing

Projects can apply for a combined subsidy of project gap and affordability gap within allowable limits. Please refer to the Maximum Affordable Sales Price and Combined Subsidy Limits chart for applicable limits, which are updated yearly.

#### 4.06 Project Gap

Project Gap is the difference between the total development cost to redevelop a property and its appraised value upon completion. Project Gap funds structured as a **forgivable loan** to the Applicant secured with a 0% interest note and mortgage, forgiven upon sale to a homeowner occupant.

Forgivable loans (in whole or in part) are required to be repaid if more Project Gap is disbursed to a Applicant than the project requires. The process for determining the amount of Project Gap assistance is described in Section 5.07 of this manual.

#### 4.07 Affordability Gap

Affordability Gap is the difference between the appraised value of a home and the affordable price as listed in chart in the Maximum Affordable Sales Price and Combined Subsidy Limits. The Affordability Gap is determined according to the following underwriting criteria:

- Prospective homebuyers have a minimum front-end debt to income ratio of 25% and a maximum combined debt to income ratio of 50%. The Minneapolis Homes Finance program relies on the combined debt ratios to evaluate an applicant's debt. The ratios are determined by the first mortgage lender. Minneapolis Homes program staff may, in their sole discretion, waive the debt to income ratio requirements when the Applicant provides a written waiver request and demonstrates need for a lower housing payment and/or an ability to maintain a sustainable housing payment.
- Prospective homebuyers must provide a cash contribution of a minimum of \$1,000.
- There is a maximum liquid cash asset limit for homebuyers in the amount of \$50,000. For every \$1,000 in excess of the cash asset limit, the Affordability Gap from the City will be reduced by \$1,000. Retirement accounts (IRA, 401K, and pensions) are not included in this limit. There is a reserve requirement of 2 months of the 1<sup>st</sup> mortgage payment. Retirement accounts (IRA, 401k, and Pensions) can be used for reserves.
- Assistance for Recapture projects is determined by completion of the homebuyer worksheet posted on the City of Minneapolis website, which is completed by applicant/developer.
- Assistance for PAH projects is determined by applicant/developer prior to listing home for sale at the determined affordable price.

## Chapter 5: General Administration

### 5.01 Timeline

Upon receipt of the proposals, a review committee will evaluate and rank all proposals and make a recommendation to the City Council. Applicants can expect the following timeline:

	Stabilization	Rehabilitation	New Construction (1-3 units)	New Construction (4-20 units)
Council Approval, if selected	3 months after application due date, in the discretion of the City Council.			
Return executed contract	Ten (10) business days to return Financing Contract after receipt			
Closing on Financing	Up to 12 months from City Council approval	Up to 6 months from City Council approval		Up to 12 months from City Council approval
Closing on City-owned property (if applicable)	Not applicable	Same timeline as financing, extensions of this timeframe will incur a fee of \$1,000 per every 30 days		
Start Construction	Up to 30 days to start construction after approval of plans or issuance of the notice to proceed by Minneapolis Homes staff, whichever is sooner			
Project Completion	Within to 6 months of the date of financial closing with the City	Within 12 months of the date of financial closing with the City		Within 18 months of the date of financial closing with the City
Total Project Timeline	18 Months from City Council approval			30 Months from City Council approval

In accordance with the terms and conditions outlined in the Financing Contract, the City will not disburse any undisbursed Minneapolis Homes Development Assistance after the expiration of the contract period, and any Minneapolis Homes: Financing gap financing that has been disbursed but not used shall be repaid to the City of Minneapolis. The City of Minneapolis, in its sole discretion, may extend the period gap financing is available to the Applicant and extensions of the Project completion timeframe will incur a fee of \$300 per contract amendment.

#### 5.02 Good Faith Deposit (City-owned property only)

If selected, all Applicants are required to provide a good faith deposit from non-City resources, equal to the greater of 10% of the sales price or \$2,000, payable when a redevelopment contract is signed between the Applicant and the City of Minneapolis. The good faith deposit is in addition to the purchase price for the property. All of the good faith deposit will be refunded if the purchaser successfully performs according to the terms of the redevelopment contract between the purchaser and the City of Minneapolis. Failure to perform according to the contract can result in the City of Minneapolis retaining all or a portion of the good faith deposit in its discretion.

#### 5.03 Construction

Applicant will follow CPED's bid procedures, attached as Appendix B. It is expected that projects are bid during the period after City Council approval, prior to land sale and financial closing. The Minneapolis Homes staff will issue a letter authorizing Applicant to apply for Site Plan Review before the land sale closing occurs. Minneapolis Homes staff will conduct site visits to monitor progress of construction.

#### 5.04 Insurance

Applicants are required to provide the following insurance.

- **Builder's Risk Insurance** equaling 100% of the insurable value of the Minimum Improvements (construction costs).
- **Commercial General Liability Insurance** along with an ISO Form B Additional Insured endorsement or Owner/Contractor Policy naming the City of Minneapolis as an additional insured. Limits against bodily injury and property damage are required at \$1,000,000 for each occurrence with an aggregate limit of \$1,000,000.
- **Worker's Compensation Insurance**, with statutory coverage.
- **Payment and Performance Bond** for 8 units or greater, must provide payment and performance bonds in the form prescribed by Minnesota Statutes, Section 574.26, covering the faithful performance of the general contractor's obligations under the construction contract, naming the City as a co-obligee, in the full amount of the construction contract and written by a surety mutually acceptable to the City and the borrower, or an irrevocable letter of credit from a lender approved by the City in the amount of 100% of the construction costs.

#### 5.05 Eligible Project Costs

Eligible costs include acquisition, hard costs, and soft costs directly related to eligible activities, which culminate in the construction of a Project. Projects receiving Minneapolis Homes: Financing gap financing are subject to the following caps:

- Developer fee cannot exceed 10% of the acquisition, construction, architectural, engineering, legal, accounting and other professional service fees, including but not limited to those for surveying, appraisal, market feasibility, and environmental and geotechnical testing and correction costs
- Realtor and marketing fees cannot exceed 7% of the home sale price
- Contingency of 5% of hard costs is required for new construction
- Developers that are also acting as general contractors are limited to a general contractor fee of 8% of documented construction costs
- Soft costs cannot exceed 15% of total development cost

Hard costs are:

- Demolition
- Site preparation, including soil corrections
- General construction costs
- Shoring
- Other costs approved by Minneapolis Homes staff

Soft costs incurred by the Applicant must be reasonable, necessary, and must directly relate to the financing of acquisition and construction of a Project. Soft costs are:

- Architectural, engineering, or related professional services required to prepare plans, drawings, specifications, or work write-ups;
- Costs to process and settle the financing for a Project, such as:
  - Private lender origination fees
  - Credit reports
  - Fees for the title evidence
  - Fees for recordation and filing of legal documents
  - Building permits
  - Attorney fees
  - Appraisal and independent cost estimate fees
  - Builder or developer fees
- Costs for affirmative marketing and fair housing compliance

#### 5.06 Ineligible Project Costs

The following improvements are not eligible for inclusion in a Minneapolis Homes Development Assistance funded project:

- Non-owner occupied housing
- Community focused projects, including community gardens, parks, or related public spaces
- Construction of public infrastructure that is not directly related to the Project, such as City water, sewer, curb, and gutter improvements
- Construction of private infrastructure that is not directly within the Land upon which the Project is located
- Administration costs that are not directly connected to the development of the Project
- Improvements for commercial use
- The following property improvements are not eligible: swimming pools, gazebos, decks that are larger than 400 square feet, hot tubs, or other luxury improvements at the discretion of Minneapolis Homes staff. Applicants will be notified of perceived luxury items and asked to remove them from project plans.
- Fees (extension or amendment) charged by the City of Minneapolis
- Change orders that do not have express written authorization from Minneapolis Homes staff

#### 5.07 Disbursement of Minneapolis Homes: Financing gap financing

Minneapolis Homes: Financing is needs based assistance. Funding is provided as either project gap or affordability gap. We will be verifying how much funding the project requires prior to closing on financing and after completion. Any unneeded financing will be returned to the City.

## Project Gap Financing

Applicant may not commence construction of the Improvements until receipt of a notice to proceed from the City. After commencement of construction and when signage is posted on the site as indicated in section 5.08, the City will make disbursements of the Combined Loan funds. No disbursement request may be submitted to the City within 30 days of the date of the previous disbursement request. The net sale proceeds will be held by the title company and disbursed to the Applicant at the time the Actual Project Gap is determined, if and to the extent that the Project Gap Loan does not exceed the Actual Project Gap.

Minneapolis Homes Project Gap is needs-based assistance. Within ten (10) business days of the homebuyer closing, the Applicant must submit documentation of all actual project costs and an updated proforma to determine Actual Project Gap.

All disbursement requests for the Project must include:

- CPED Draw Requisition form showing sources and uses of funds per each draw
- AIA Documents G702 and 703, including a signature from the assigned Construction Management Specialist
- Invoices from each provider to be paid or documentation of payment for all costs to be reimbursed
- Change orders documentation.
  - Sworn Construction Statement individual lines can adjust during the project construction phase: i.e. lumber goes down, window costs go up and will not impact the total hard construction costs.
  - If total hard construction costs increase during the project construction phase (change order) – Notify the assigned Construction Management Specialist (CMS) when the change occurs and provide documentation of the change order. It is important to submit change orders so it can be determined if it is an eligible cost.
  - If adding to the scope of work or if an unforeseen item is encountered during the project construction phase ALWAYS engage with the assigned CMS.
  - Be sure to always review your contract that also outlines parameters around Change Orders as well.

## Affordability Gap

Affordability gap financing may be provided in the form of a mortgage and note or a declaration of restrictive covenants depending on sales methodology. The actual gap need is determined by the amount needed to bring the first mortgage financed down to the Minneapolis Homes: Financing Affordable Price limits and by the underwriting criteria in section 4.07.

In the event that the actual Project Gap need or Affordability Gap need for a project is less than the projected need, the developer will reimburse the City 100% of the difference.

## 5.08 Affirmative Marketing

Stabilization proposals do not have affirmative marketing requirements. All other Applicants must affirmatively market for sale housing opportunities created by the Minneapolis Homes program by:

- Ensuring housing opportunities are publicly posted for sale on the Multiple Listing Service (MLS) for a minimum of ten (10) calendar days
- Agreeing to a public posting on the Minneapolis Homes website of the Applicant contact information and development project address through the Minneapolis Homes program
- Including non-discrimination, equal housing opportunity language on all MLS postings and marketing materials
- Providing signage in weatherproof materials with professional lettering of a minimum size of 2' x 3' on the project site that includes the City of Minneapolis logo and states "this project is being developed with the assistance and cooperation of the City of Minneapolis".
- If utilizing the Recapture method of sale, including that up to \$10,000 of homebuyer assistance is available to buyers below 80% AMI, based upon need

Additional affirmative marketing activities will be competitively scored through the Minneapolis Homes NOFA process. Exceptions to MLS posting may be approved by the City of Minneapolis, in its sole discretion, for home sale models that are affirmatively marketed, have a waiting list, and demonstrate outreach to underserved markets.

## 5.09 Preference Policy

The City of Minneapolis has established a preference policy to provide residents of certain North, Northeast, and Central Minneapolis neighborhoods who were displaced since January 1, 2007 due to extreme economic forces with preference within the Minneapolis Homes: Financing program. Eligible neighborhoods can be found in the map found on Appendix F.

Units that will have preference applied will be identified at the time of enrollment through the Minneapolis Homes: Financing Program and/or the Perpetually Affordable Housing Program. City Council will randomly identify 50% of units within the preference target area and 50% of units outside of the preference target area to provide even distribution of units with a preference option.

If a unit is designated to comply with the preference policy, Applicants will be required to affirmatively market the property as outlined in Section 5.08 and include the form in Appendix E with all marketing materials. In the event multiple offers are received for a unit, Applicants must implement the following selection criteria:

- 1) Income Eligibility – if households are not income eligible, as defined in program guidelines, they will be disqualified
- 2) Household Size – applicants whose household size is less than the number of bedrooms in the unit plus one will only be selected if there are no qualified applicants of a compatible size for the unit
- 3) Preference Policy – applicants who meet the criteria of a City approved preference policy
- 4) Current Renters – households that don't own a home

If all of the selection criteria above are applied and there are still multiple applicants for a housing unit, then a randomized selection will be conducted.



## 5.10 Project Completion and Final Reconciliation

The final proforma reflecting actual final costs, documentation of final costs, and all remaining items from the CPED checklist must be submitted no later than 10 business days after the homebuyer closing. Sale Price proceeds as shown on the closing statement will be escrowed at the homebuyer closing and remain with Title until the amount of actual Project Gap has been determined by the City; and upon such determination, any excess Project Gap will be paid by Title to the City from the Sale Price proceeds held by Title.

## ***Chapter 6: Household Eligibility Criteria***

### 6.01 Eligibility Criteria

Households must:

- Owner occupy the Minneapolis Homes unit as their Principal Residence
- Meet HUD Part 5 income eligibility requirements
- Be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction
- Complete an eight-hour pre-purchase homebuyer education workshop offered by a [HUD approved Housing Counseling Agency](#).
- Utilize a first mortgage product that is considered an “A” or “prime” lending product. It must be a fixed rate FHA, VA, or Conventional loan, unless pre-approved by Minneapolis Homes staff. (NOTE: Contract for Deed is allowed, but must be in compliance with the City’s Contract for Deed policy)

### 6.02 Minneapolis Homes Income Eligibility

Household income of owner occupants of affordable units must be at or below 80% of AMI as defined by the U.S. Department of Housing and Urban Development (HUD) using the [Technical Guide for Determining Income and Allowances for the HOME Program](#) (24 CFR 5.609). HUD Part 5 income limits must not exceed the [115% AMI limit of Minnesota Housing](#). Where one income limit exceeds the other, the lower will be applied. For 2-4 unit properties that are owner occupied with rental units, adjusted net rents from the rental units will be included in the owner occupant’s income calculation.

See Appendix C for HUD Part 5 income certification requirements and forms.

### 6.03 Reporting Household Demographic Data

The Applicant must ensure the Minneapolis Homes household demographic form is completed.

## ***Chapter 7: Reporting, Record Retention, and Documentation***

The Applicant must retain financial records, supporting documents, statistical records, environmental review records, and all other records pertaining to the project for a minimum of six years from the date the Minneapolis Homes Project was completed. Records that are the subject of audit findings shall be retained for six years after such findings have been resolved. Records for non-expendable property acquired with funds under this Agreement shall be retained for six years after final disposition of such property.

## ***Chapter 8: Servicing of Deferred Loans and Deed Covenant***

The City of Minneapolis will designate a servicer for deferred loans and deed covenants. Servicing, satisfaction, or subordination inquiries should be directed to the designated servicer.



## Minneapolis Homes: Financing Housing Development Checklist

Developer: Developer Contact: Phone:

Project Coordinator: Construction Management Specialist:

*Provide all documents separate, named as bolded and underlined below and per phase in one complete submittal. Submit blue documents to the Project Coordinator and the shaded documents to the Construction Management Specialist. Developers with financing through Land Bank Twin Cities are encouraged to copy Land Bank Twin Cities staff on all submissions of phase documents.*

- Program Application or RFP response
- Offer to Purchase, if purchasing a City-owned property
- Broker’s Price Opinion (BPO) to establish after rehab or completed new construction estimated sales price
- Documentation of financing dated within last 90 days
- Proforma filled out in “Application Budget” column
- Elevation/Site/and Floor Plans can be sketches
- Evidence of Affirmative Action Plan approved by Minneapolis Department of Civil Rights or documentation it has been submitted for approval. **Only for projects of \$100,000 or more.**
- Long Term Affordability Application (if LTA project)

### Phase 0: Additional Items for HOW Program (Provide the additional documents ONLY when property is not acquired from the City of Minneapolis)

- Voluntary Acquisition Form
- Initial property acquisition purchase agreement
- HUD 1 settlement statement related to the initial property acquisition
- Property Deed / evidence of ownership
- Evidence property was **vacant** at time of acquisition a minimum of 90 days prior to acquisition
- Neighborhood notification letter
- Confirmation that the property is located in an eligible area
- Environmental review record (include SHPO and FEMA panel)

### Phase 1: Financing Contract

- Signed CPED Financing Contract including title company information
- If HOME funded ensure Project is set-up in IDIS after execution of contract

## Phase 2: Closing

### Step 1:

SUBP Requirements with **Civil Rights** (this is triggered when a project receives over \$175,000 in funding ) Partner with SPC and assigned staff to initiate the process.

**Pre-Bidding** (All items must be submitted and approved prior to bidding):

- Plans/Specifications/Lot Survey**
- Pre-Construction Intended Methods **Green Communities Checklist**
- Initial **Energy Audit** or Energy Modeling Report
- Bid advertisement**, consistent with CPED Bidding Requirements in contract
- Construction Management Specialist Notice to Proceed with Bidding**

### Additional Items Required for Rehab Projects (pre-bidding)

- Asbestos inspection report**
- Radon testing** results

For projects constructed prior to 1978 provide the following

- Lead Based Paint Inspection** and Risk Assessment Report (Hennepin County)
- Lead abatement scope** of work
- Lead calculations**
- Lead certifications**
- Notification of Lead Hazard Reduction** (Minnesota Department of Health (MDH))

**Step 2: Post-Bidding** (All items must be submitted **10 business days** before closing):

- Bid tally**
- General or subcontractor **Bids**
- General contractor's or developer's **Builders License**
- Executed general or sub**contractor agreements** with the developer
- Sworn Construction Statement**
- Building Permit:** evidence of a full submission to Development Review as required for a building permit (upon approval provide copy of stamped plans to Construction Management Specialist)
- sam.gov Excluded Party List System (**EPLS**) **search** for ALL vendors, suppliers, contractors, title company
- Title Commitment**
- Proforma** (contract exhibit) updated in column "Closing budget"
- Builders Risk Insurance** equaling 100% of the insurable value of the Minimum Improvements (construction costs). Can be provided by Developer or their General Contractor. City must be named as additional insured. The property address must be listed on the certificate.
- Comprehensive General Liability Insurance** along with an ISO Form B Additional Insured endorsement or Owner/Contractor Policy naming the City of Minneapolis as an additional insured. Limits against bodily injury and property damage are required at \$1,000,000 for each occurrence with an aggregate limit of \$1,000,000. Can only be provided by Developer. City must be named as additional insured.
- Worker's Compensation Insurance** with statutory coverage. Can only be provided by Developer.

### Closing

- Developer schedules **CLOSING** with Real Estate Coordinator (if property acquired from City) or with Project Coordinator (if property is a HOW project) after the Project Coordinator, in consultation with Construction Management Specialist, approves project to close
- Project Coordinator issues the **NOTICE TO PROCEED** after closing.

- [ALTA Loan Policy](#) (title insurance policy)

#### Step 4: Disbursement (Developer can submit disbursement requests no more than every 30 days)

- [Disbursement Request, including loan requisition](#) (Contract Exhibit)
- [AIA Documents G702 and 703](#)
- [Invoices](#) from each provider to be paid or reimbursed
- Onsite [project signage evidence](#)

### Phase 3: Construction Completion

- Certificate of Occupancy**, Truth in Housing or Code Compliance as applicable
- Post-Construction **Final Green Communities Compliance Report**
- Home Energy Rating System (HERS)/Final Energy Audit**
- Final radon testing** results
- Construction Manager performs site review and issues **Final Inspection Approval**

### Phase 3: Additional Items Required for Rehab Projects

- Asbestos manifest**
- 2 year **Paint Warranty**
- Mechanical certification** of original equipment by a licensed professional
- Sewer clean out certification** of original equipment by a licensed professional
- Roofing certification** of original equipment by a licensed professional

#### For projects constructed prior to 1978 provide the following

- Lead Clearance Report Post Abatement** (Hennepin County)
- Lead Clearance Report Pre-Occupancy** (Hennepin County)
- Lead Record Keeping Checklist** (Environmental Protection Agency (EPA))
- Lead Hazard Reduction Report** (MDH)
- Lead Safe Practices Form** (CPED)
- Lead Adhesion/Cohesion Report**

### Phase 4: Occupancy

- Certification Application and Tennesen Warning**
  - HOME/HOW funded projects: Project Coordinator performs [Buyer Subsidy Layering Analysis](#)
- Project Coordinator provides [Closing Instructions](#) to developer
- SAM.gov [EPLS search](#) for ALL **remaining** vendors, suppliers, contractors, title company in addition to real estate company, agents, lenders and homebuyers.
- [Homebuyer purchase agreement](#)
- [Previous Year's Tax Return](#)
- [Household income verification](#) (typically 6 months bank statements, 2 months paystubs or verification of employment, and prior years federal income tax return) \*Income has to be within 6 months of homebuyer closing
- [Income Eligibility Worksheet](#)
- Fannie Mae (FNMA) [1003 Mortgage Loan](#) Application
- FNMA [1008 Lender's Underwriting](#) Transmittal

- Documentation that [primary financing](#) is a fixed rate "A" or "prime" FHA, VA, FNMA, or Freddie Mac loan product as listed on the Uniform Residential Loan Application (Form 1003).
- [Summary appraisal](#). REQUIRED: Use appraisers from Approved CPED appraiser list
  - NSP or HOME/HOW funded projects: [Purchase Price](#) does not exceed 95 % of HUD's median area sales price requirement. Required for Neighborhood Stabilization Program (NSP) and Home Ownership Works (HOW) funds
- [Pre-purchase Counseling Certificate](#) for all the adults in the household.
  - HOME/HOW funded projects: [Pre-purchase Housing Maintenance Certificate](#) for all the adults in the household.

## Phase 5: Post Occupancy (Due within 10 business days of homebuyer closing)

- Final [Proforma](#) with column "Final Budget" completed with supporting AIA Documents G702 and 703, and invoices
- [Homebuyer Assistance](#) Note and Mortgage (Contract Exhibit)
- [Homebuyer Affidavit](#) (Contract Exhibit)
- [Homebuyer Household Characteristics Form](#) (Contract Exhibit)
- [Closing Disclosure](#)/Previously HUD 1 Settlement Statement
- [Homeowners insurance](#) certificate
- [Ground Lease](#) (Contract Exhibit) NOTE: Applies to land trust projects only

## **COMMENTS**

## ***Appendix B: Minneapolis Homes BIDDING REQUIREMENTS***

**For Projects with 20 housing units or less receiving development gap assistance through the City of Minneapolis, the City requires fair, open and competitive procurement that demonstrates reasonable development costs as described below:**

1. At a minimum, developers must separately, publicly and widely advertise for competitive bids for each division of construction listed on the attachment to these Bidding Requirements (“Bid Sections”). If any Bid Section is valued over \$100,000, then bids need to be sealed until the advertised bid opening date. Developers are encouraged to separately and publicly advertise for all work. Requests for bids must be designed to procure fixed or maximum price bid contracts and all contracts, whether for Bid Sections or other work shall be entered into on that basis. Developers may not use “cost plus a percentage of cost” pricing for contracts.
2. For the purposes of these Bidding Requirements, public advertisement may be through electronic postings (For example, 1 Square Foot, Builders Exchanges, Finance and Commerce, etc.).
3. If the Project is receiving over \$175,000 of City assistance, the Developer and its contractors and suppliers must comply with the Small and Underutilized Business Enterprise Program (SUBP) requirements as outlined in Minneapolis City Code Chapter 423. Any questions about the SUBP Requirements should be directed to the City of Minneapolis Civil Rights Department – Contract Compliance Division (612) 673-3012 or [contractcompliance@minneapolismn.gov](mailto:contractcompliance@minneapolismn.gov).
4. If the Developer has received more than \$200,000 of federal HOME, CDBG or NSP funds from the City of Minneapolis in the past year, Developer is subject to the Section 3 requirements outlined in 24 C.F.R. Part 135. In addition, any contractor or subcontractor with a contract(s) with a cumulative total of over \$100,000 on a Section 3 covered project must also comply with the Section 3 requirements outlined in 24 C.F.R. Part 135. Section 3 requires that to the greatest extent feasible, job training, employment and contracting opportunities in connection with Section 3 covered projects be provided to low-income or very low-income residents or businesses.
5. In addition, Developers are encouraged to make good faith efforts to solicit the interests of Section 3 Business Concerns and Minority-owned Business Enterprises and Women-owned Business Enterprises even if the project is not subject to federal Section 3 or Minneapolis’ Small or Underutilized Business Enterprise Program requirements.
6. Developers must submit their plan for public advertisement as well as the specifications being bid to CPED staff for review and comment by CPED and the Minneapolis Department of Civil Rights prior to commencement of advertising and placed within 5 days of City approval. Invitations for bid must include complete, accurate and clear specifications with pertinent attachments in sufficient detail for bidders to properly respond. All bids need to be written, dated, signed and received before the advertised bid opening date. For Bid Sections valued at less than \$100,000, e-mail bids may be accepted, provided that they are received by the developer prior to the bid opening using a secure e-mail system showing that the bids have not been opened prior to such bid opening and included on the bid tally.
7. Developer must invite City Staff to attend all bid openings for Bid Sections. City staff may attend such bid openings at City discretion.

8. For all Bid Sections, Developer shall provide the City with (i) copies of the sign-in sheet of all persons attending the bid opening, (ii) copies of all bids and (iii) a bid tally summarizing all bidders and pertinent financial information.
9. Developer must select the lowest responsive responsible bidder for each Bid Section unless CPED approves the selection of another bid. CPED may approve a bid other than the lowest responsive, responsible bidder, provided that the alternate selection is determined to be cost reasonable.
10. If Developer does not receive at least two (2) or more responsive, responsible bids for each Bid Section, the City may require Developer to pay for a cost reasonableness review by a consultant acceptable to the City or rebid all or part of the Bid Sections.
11. Pursuant to Executive Order 12549, "Debarment and Suspension", Developer shall ensure that no contracts are given to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in projects receiving federal assistance through <https://www.sam.gov/portal/SAM/##11> and provide evidence of compliance to the City including the date of the search.
12. Design-build arrangements where the design phase overlaps with the Construction phase of the Project are prohibited.
13. Developers or General Contractors who wish to self-perform work on a project may only do so if they submit a separate bid (or bids) on the relevant Bid Sections.
14. For projects with 8 or more housing units Prevailing Wage and the City of Minneapolis Apprenticeship policy will apply.

## Bid Sections

### CPED funded single family projects:

1. Excavation/Backfill/site prep
2. Foundation
3. Waterproofing
4. Framing
5. Roofing
6. Siding
7. Sewer/Water
8. Insulation
9. Drywall
10. Painting
11. Flooring
12. Finish Carpentry
13. Plumbing/Mechanical
14. HVAC
15. Electrical
16. Landscaping



## **Appendix C: HUD Part 5 Income Determination**

The Developer must use the guidelines under 24 CFR 5.609 to calculate annual household or individual income. The Developer must compare a household or individual's Annual Income to the most recent HUD Income Limits to determine a household or individual's income eligibility. Minneapolis Homes publishes the most recent HUD Income Limits on its website. HUD Part 5 income limits must not exceed the 115% AMI limit of Minnesota Housing. Where one income limit exceeds the other, the lower will be applied.

The Developer may use the Income Eligibility Calculation Worksheet on the Minneapolis Homes website to calculate household income. The Developer should obtain independent third party verification for all income sources. The Developer may use the Income Verification Forms on Minneapolis Homes' website to document income sources. When independent third party verification of income is not available, the Developer may accept source documents that verify the household's income. The Developer must assess the documentation to determine completeness. Additional written or verbal clarification may be required from the entity providing the verification. All supporting documentation must be retained in the project file. The Developer may not charge the household a fee for income verification.

Links to website for verification forms used by MN Housing to achieve HUD Part 5 Income certification:

- [Income Eligibility Calculation Worksheet](#)
- [Household Questionnaire](#) \*
- [Employment Verification](#) \*
- [Bank Verification](#) \*
- [Stocks / Bonds Verification](#)
- [Asset Verification - 401K](#)
- [Divestiture of Assets Verification](#)
- [Real Estate Verification](#)
- [Alimony / Child Support Verification \(Payer\)](#)
- [Alimony / Child Support Self-Certification](#)
- [Alimony / Child Support Verification \(Enforcement Agency\)](#)
- [Live-in Aide Agreement](#)
- [Live-in Aide Verification](#)
- [Military Pay Verification](#)
- [Workers Compensation Verification](#)
- [Unemployment Compensation Verification](#)
- [Veteran's Benefits Verification](#)
- [Self Employment Verification - New Business](#)
- [Self Employment Verification - Existing Business](#)
- [Regular Contributions Verification](#)
- [Public Assistance Verification](#)
- [Phone Verification/Clarification Record](#)
- [Zero Income Certification](#)

\* Required in all project files. All other documents should be included based on borrower application demands.



## Minneapolis Homes Financing Rehab Standards: Owner occupied 1 or 2 unit or townhome projects

All projects to comply with current Minnesota Overlay to the Enterprise Green Communities Criteria (EGC) and Minneapolis Development Review (MDR) provisions.

**\*Repair or replace:** A **repair** incorporates best methods and materials per industry standards to extend the useful economic life of a surface, fixture, or assembly. **Replacement** is required when the useful economic life of a surface, fixture or assembly has expired, and repair is not feasible.

### SITE WORK

**Fences, gaslights, clothes poles or other exterior amenities:** Remove those that are in deteriorated condition. Repair existing fences to remain and remove vegetation growth in the fabric, replace bent posts or line poles and all gates shall be operable.

**Volunteer growth, trees and stumps:** Remove all growth within three feet of foundation, this includes volunteer trees and bushes. Remove all stumps and the roots. Restore damaged area. Cut back all tree branches and limbs within 10 feet of roof/chimney/structure and within 3 feet of utility lines.

**Positive Drainage:** Provide fill and raise the grade around the foundation to provide positive drainage away from structure allowing at least six inches below the top of the foundation and siding. Install durable landscape cover with permanent edging.

**Window Wells:** Install galvanized window wells at existing basement window locations

**Bare dirt areas:** Restore bare dirt areas and areas damaged during construction, including the boulevard areas. Install black dirt and seed or sod.

**Sidewalks:** Replace broken, uneven, projecting or settled sidewalks, driveways and public walks with greater than 1/2" deviation, to satisfy City requirements. Replace settled sidewalks next to foundation with negative slope towards structure.

**Retaining walls:** Restore deteriorated retaining walls.

**Landscaping:** Install

landscaping to meet the EGC.

### EXTERIOR BUILDING

**Roof:** When the roof is retained and/or repaired, provide materials to match existing and written certification from a licensed building contractor that the roof (shingles, sheathing, flashing and vents) are functional and insure a minimum economic life of 10 years remaining. Provide written

certification from licensed building contractor. Repair roof trusses/rafters and decking with structural graded lumber. Trusses are to be repaired under the direction of a structural engineer.

**Chimney:** Restore chimney. Repair or replace damaged tuck pointing, brick and masonry cap. Install flashing.

**Exterior wall surfaces:** Repair or replace\*. Where existing wood siding and trim is to be retained, replace all damaged, rotten and deteriorated wood prior to applying paint or covering. Repair all exterior finishes to match.

**Soffits and fascia:** Repair or replace\*. Where existing wood soffit and fascia is to be retained, replace all damaged, rotten and deteriorated wood prior to applying paint or covering. Repair all exterior finishes to match

**Gutters/Downspouts:** Repair or replace\*. All existing gutters to be cleaned out and free from leaks. Install 6 ft leaders away from house or install splash blocks at locations where leaders cross sidewalks.

**Stoops/steps:** Repair or replace stoops or steps that are deteriorated or have negative settlement. Install guard rail and handrail when required.

**Porches/decks:** Repair or replace porches or decks that are deteriorated or have negative settlement. Install guard rail and handrail when required.

**Mailbox:** Provide a mailbox.

**Address numbers:** Provide front and rear address numbers.

**Adhesives/caulking/paint:** Install approved materials per EGC.

## GARAGE and ACCESSORY STRUCTURES

**Garage roof:** When the roof is retained and/or repaired, provide materials to match existing and written certification from a licensed building contractor that the roof (shingles, sheathing, flashing and vents) are functional and insure a minimum economic life of 10 years remaining. Provide written certification from licensed building contractor.

**Garage address numbers:** Provide address numbers visible to alley.

**Garage overhead and service doors:** repair or replace\*.

**Garage slab:** Repair or replace\*.

**Garage framing and structural elements:** Repair or replace\*.

**Garage exterior wall surfaces:** Repair or replace\*. Where existing wood siding and trim is to be retained, replace all damaged, rotten and deteriorated wood prior to applying paint or covering. Repair all exterior finishes to match.

**Garage soffits and fascia:** Repair or replace\*. Where existing wood soffit and fascia is to be retained, replace all damaged, rotten and deteriorated wood prior to applying paint or covering. Repair all exterior finishes to match.

**Accessory structures:** Remove or repair\*.

**Extra items:** Remove all items from garage interior and any non-compliance heating unit

## FOUNDATIONS, FOOTINGS and STRUCTURAL ELEMENTS

**Foundations and Footings:** Repair or replace\*. Repair tuck pointing, buckling, settlement and cracks at both interior and exterior. Remove all deteriorated mortar, brick, block and spalling material from all perimeter foundation walls. Patch to a smooth uniform condition.

**Structural deficiencies:** When there are obvious deficiencies in structural elements (i.e. foundation cracks, bowing, settling and/or attachments) CPED shall require a licensed engineer to verify stability of structural elements, recommend repair and provide

a report detailing repair.

**Framing and structural elements:** Repair or replace improper alterations or damages to framing or structural elements as needed to include columns, beams and joists.

## BASEMENT

**Basement floors:** Repair or replace concrete floor to insure no tripping hazards. Install new concrete floor over exposed basement dirt floor.

**Vapor Barrier:** Install per EGC when replacing or installing new basement floor.

**Ceiling height:** Minimum 6 foot 4 inches required for habitable space and bedrooms.

**Basement water infiltration:** Provide scope of work to address water infiltration that may include installation of drain tile and sump pump.

**Existing drain tile and sump basket:** Verify pump operation or install new sump pump drained to the exterior. Sump pump to have designated GFCI outlet.

**Abandoned items:** Remove all abandoned items from basement interior including any abandoned mechanical, plumbing or electrical components.

## INTERIOR STAIRS

**Existing stairs:** Repair or replace\*.

**Guards/handrails:** Install, repair or replace\*.

## INSULATION

**Insulation:** Insulate exterior envelope and seal bypasses per the Energy Audit Report.

**Crawl Space:** Install vapor barrier and insulate per the Energy Audit Report.

## WINDOWS and DOORS

**Exterior doors:** Repair or replace\*. Existing doors shall be functional, weather tight and include a locking knob set or dead bolt lock. All locks keyed alike.

**Interior doors:** Repair or replace\*. Existing doors shall be functional and have matching hardware.

**Existing windows, storm windows and screens:** Repair or replace\*. All windows to have locks and lifts, adjusted, weather-stripped and weather tight.

**New windows:** Install windows to meet the Energy Audit Report.

**Egress windows:** Install egress windows as applicable.

**Shades, drapes or blinds:** Install shades, drapes or blinds in all bath and sleeping rooms.

## INTERIOR FINISHES

**Walls and ceilings:** Repair imperfections (i.e. cracks, gouges, holes, peeling paint) and finish to match surrounding finishes. Finish (i.e. primer, paint, stain and sealer) materials must meet EGC.

**Floor covering:** Replace with new or repair to match existing materials. New flooring materials and finishes to be environmentally preferred and meet EGC.

**Cabinets, vanities and countertops:** Repair or replace\*. New cabinet, vanities and countertops materials to meet EGC.

**Millwork:** Repair or replace\*. Millwork materials to meet EGC.

**Adhesives/caulking:** Install approved materials per EGC.

**Mold Prevention:** Install materials in kitchens, bathrooms and laundry rooms to meet EGC.

## APPLIANCES

**Appliances:** Install appliance to meet EGC. Clothes washer, dishwasher and refrigerator to be Energy Star rated. Install catch pan for clothes washer located above basement level.

## PLUMBING

**Water main line:** Replace all galvanized/lead lines with copper. Install new ball valves on each side of the water meter.

**Existing sewer line:** Install a clean out if none exists. Auger or replace sewer line from clean out to the city sewer main. Provide receipt of auger work.

**Interior water lines:** Replace all non-conforming and galvanized lines.

**Washer hook-ups:** Install hook-ups for washer and stand drain or laundry tub

**Floor drain:** Repair or replace\*. Install new floor drain in laundry room when accessible. **Fixtures (Tubs/sinks/toilets):** Repair or replace\*. Surfaces to be free from chips, cracks, blisters and peeling paint. Replace fixtures to meet EGC.

**Service valves:** Repair or install water service valves at all fixtures.

**Exterior frost-free sill-cock:** Install one exterior frost-free sill-cock.

**Water heater:** Replace water heater greater than 5 years old: Install new unit to meet EGC.

Water heaters less than 5 years old: Provide written certification from a licensed plumber that the water heater meets code. Install catch pan for water heaters located above basement level.

**Gas piping:** Repair or replace\*. Lines shall be of approved material, adequately supported and protected where subject to damage.

## ELECTRICAL

**Electrical service/panel:** Minimum of 100 amp service per unit and 100 amp panel with breakers.

**Wiring:** Replace all knob and tube wiring.

**Receptacles:** Repair or replace\*. Install an exterior receptacle near the front and rear entries of each unit. Install 220 V dryer outlet when no dryer gas line is installed. Install GFCI within 6' of all wet locations.

**Lighting and bulbs:** Repair or replace\*. Install a switched exterior light at each outside entry door to the house and garage. Install new lighting and bulbs to meet the Green Communities Criteria.

**Smoke, carbon monoxide and fire alarm systems:** Install per MDR requirements

**Electrical Certification:** Provide City of Minneapolis Electrical Certification Form completed by a licensed master electrician.

## MECHANICAL

**Furnace/boiler:** Replace furnace greater than 15 years old and boiler greater than 20 years old: Size and install new unit to meet EGC. Furnace less than 15 years old and boiler less than 20 years old: Provide the City of Minneapolis Heating, Ventilation and Cooling Performance Safety

Check from a licensed HVAC contractor.

**Exhaust fans:** Install Energy Star rated exhaust fans in bathrooms and kitchen per EGC.

**Ductwork/Ventilation:** Install, insulate and seal to meet EGC. Ventilate clothes dryer.

## ENVIRONMENTAL

**Lead Based Paint (LBP):** For houses built before 1978, owners are required to ensure that their rehabilitation activities comply with the Environmental Protection Agency (EPA) and MN Department of Health. Provide an LBP Inspection and Risk assessment (PIRA) and include recommendations in the scope of work. Provide LBP calculations, certifications, notifications and clearances.

**Asbestos:** Comply with EPA and MN Department of Health regulations. Provide Asbestos Inspection Survey and Report and include findings in scope of work per applicable regulations prior to and during demolition efforts. Provide clearances and disposal manifest, when applicable.

**Radon:** Comply with MN Department of Health regulations. Conduct pre-test and post-test for Radon in the home and provide CPED with reports. If the test results exceed EPA standards, install a radon mitigation system per EGC.

**Mold:** Comply with MN Department of Health regulations. Provide mitigation strategy in the scope of work.

**All environmental work shall comply with the Minnesota overlay to the Enterprise Green Communities criteria.**

For more information about regulations for environmental contaminants present in homes, visit:

<http://www.health.state.mn.us/topics/healthyhomes/index.html>

## BUILDING PERFORMANCE

**Energy Audit:** Conduct pre-construction energy audit and incorporate recommendations into the scope of work. Conduct post-construction energy audit. Provide reports.

## Additional Items: Owner/Renter Occupied 3 units or more

### Substantial vs Moderate Rehabilitation

**Substantial Rehabilitation:** (or gut rehab) is defined as a project that meets one of the following: 1. Includes the replacement or improvements or both of at least two major systems of the building, including its envelope. Major building systems include roof structures, wall or floor structures, foundations, plumbing, HVAC and electrical systems. The building envelope is defined as the air barrier and thermal barrier separating exterior from interior space. 2. The work area exceeds 50 percent of the aggregate area of the building per the Minnesota Conservation Code for Existing Buildings Section 505 Level 3 Alteration.

**Moderate Rehabilitation:** is defined as a project that meets one of the following: 1. Does not fall into the Substantial Rehabilitation classification as defined above 2. Where the work is limited to the Minnesota Conservation Code for Existing Buildings definition of Section 502 Repairs, Section 503 Level 1 Alteration or Section 504 Level 2 Alteration. Reference MHFA Design Standards Section 3.04 Rehabilitation Classification Definitions.

### PHYSICAL NEED ASSESSMENT (PNA) or Critical Needs Assessment (CNA)

**Physical Needs Assessment (PNA) or Critical Needs Assessment (CNA):** 4 or more units provide a PNA or CNA including the Interior, roofing, structural, mechanical, electrical, plumbing, site, and building envelope analysis. All PNAs and CNAs must be prepared by a needs assessor who is a licensed architect and/or licensed professional engineer.

### COMMON AREAS

**Finishes:** Install durable finishes to meet EGC.

**Laundry:** 1 washer/dryer for 3 to 7 units. 2 washer/dryers for 8 to 12 units. 3 washer/dryers for 13 to 20 units.

**Guard rails/handrails:** Install guard rail and handrail when required.

**Parking:** Replace or repair existing parking stalls.

**Mailboxes:** Install United States Postal Service approved locking mailbox. 1 per unit.

### Federal funding requirements

**Broadband:** Units have broadband (Internet access) throughout the project. (4 or more units, exceptions with proof of location, structure or financial burden.)

**504 Requirements:** 15 or more units rehab with greater than 75% replacement cost elevator, accessible route, 5% handicapped and 2% Sensory Impaired units. Rehab of fewer than 15 units or less than 75% replacement cost: 24 C.F.R. § 8.23(b) Other alterations apply

**Appendix E: Community Preference Policy Form:**

The goal of the [Community Preference Policy: Ownership Housing](#) is to disrupt involuntary displacement of Minneapolis residents. Preference policy opportunities apply to current residents or those who have experienced displacement from identified eligible Minneapolis neighborhoods due to extreme economic forces or housing crisis. Community preference policy intends to serve current and previous Minneapolis community members, focusing on anti-displacement of Black, Indigenous, People of Color, and Immigrant (BIPOCI) and low wealth communities; which are disproportionately impacted.

**Eligible neighborhoods**

Audubon Park	Bancroft	Beltrami	Bottineau
Bryant	Camden Industrial	Central	Cleveland
Columbia Park	Corcoran	East Phillips	Ericsson
Field	Folwell	Harrison	Hawthorne
Humboldt Industrial	Jordan	Lind-Bohanon	Logan Park
Marshall Terrace	McKinley	Midtown Phillips	Near-North
Northeast Park	Northrop	Phillips West	Powderhorn Park
Regina	Sheridan	Shingle Creek	Standish
Sumner-Glenwood	Victory	Ventura Village	Waite Park
Webber-Camden	Whittier	Willard-Hay	Windom Park

**Complete below and include as supplement for offer to purchase with required documentation.**

1. Does the primary occupant and purchaser **currently reside** in any of the eligible neighborhoods?

**Yes**

If yes, stop here applicant is eligible.

**No**

If no, continue to question 2.

2. Was the primary occupant and purchaser **involuntarily displaced** from any of the eligible neighborhoods anytime between January 1, 2007 to present?

**Yes**

If yes, continue to question 3.

**No**

If no, stop here, applicant is not eligible.

3. If the primary occupant and purchaser was involuntarily displaced from any of the eligible neighborhoods between January 1, 2007 to present, what factor(s) caused the involuntary displacement? (**documentation required – proof of forfeiture, foreclosure, property condemnation, eviction or other with dates**)

**Tax Forfeiture**

**Bank/Mortgage Foreclosure**

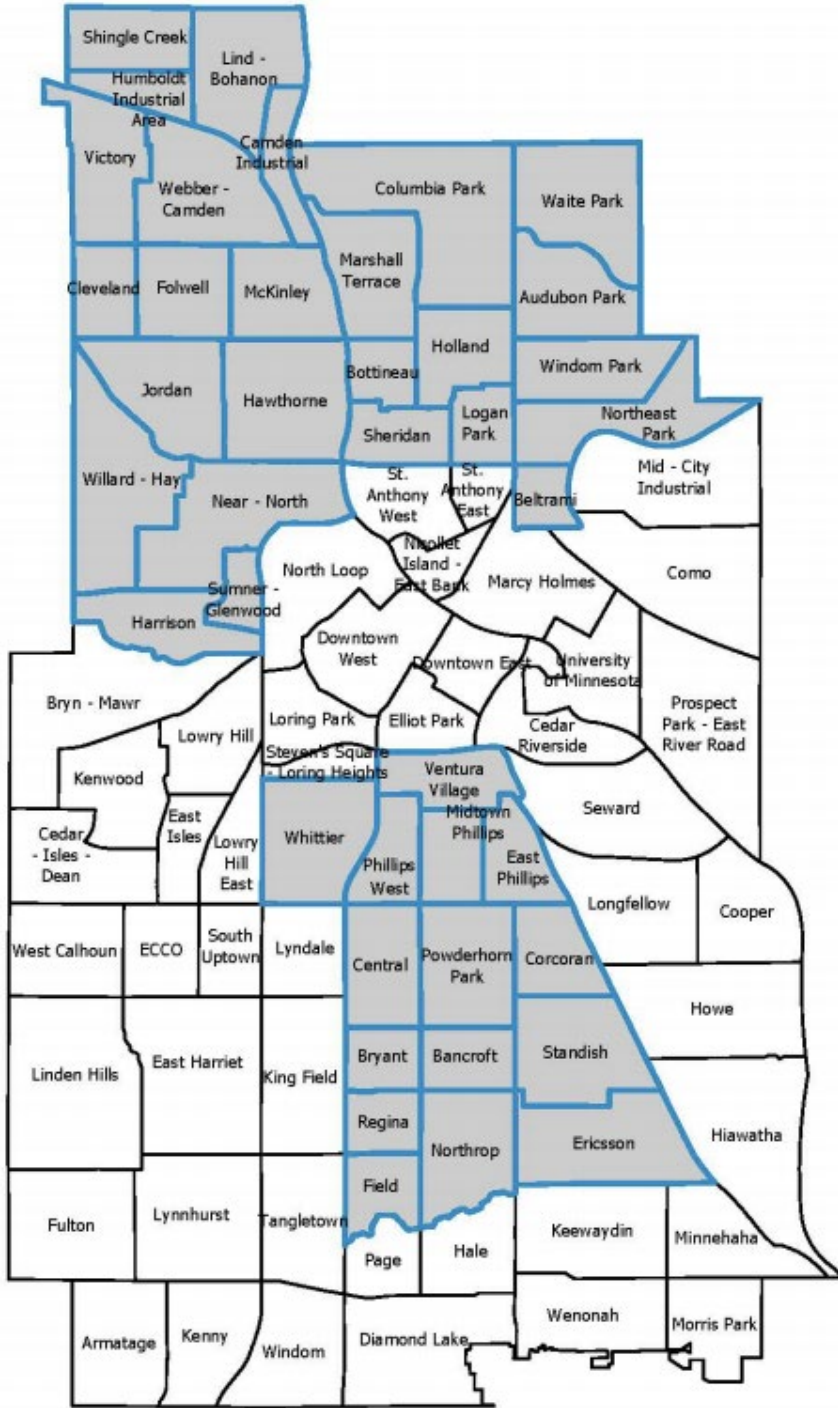
**Property Condemnation (resulted in eviction)**

**Other extreme economic forces (provide explanation below)**





*Appendix F: Community Preference Policy: Ownership Housing Eligible Neighborhoods Map*



## *Appendix G: HUD HOME Funds Guidelines Appendix*

### **1.07 CHDO Certification (Optional)**

HOME funds will be awarded with priority to CHDO certified organizations, to achieve federal requirements defined in 24 CFR 92.2 to meet a 15% set aside of funding for housing activities completed by CHDOs. To qualify for CHDO Set-Aside funds, the following additional HOME regulatory requirements apply:

- The CHDO must be the owner and developer of the housing to be constructed or rehabilitated during the construction period, must arrange for all project financing and be in sole charge of the construction. (92.300(a)(6))
- The nonprofit must be certified as a meeting the definition of CHDO prior to the commitment of CHDO Set-Aside funds, including having the necessary development capacity. (92.300(a) and 92.2 definition of CHDO)
- The funds used only for homebuyer assistance and not used for development cannot be more than 10 percent of the CHDO set-aside funds provided to the project. (92.300(a)(6)(i))
- The written agreement committing the HOME funds must:
  - Specify the actual sales prices of the housing or the method by which the sales prices for the housing will be established; and
  - Specify whether the proceeds (if any) of the HOME funds must be returned to the City or may be retained and reused by the CHDO for HOME-eligible or other low-income housing activities. (92.300(a)(6)(ii))

### **2.02 Financing Contract—Additional Text**

Approved Minneapolis Homes proposals will require a Financing Contract that is unique to each approved housing project. The Financing Contract will contain the required elements of the HOME developer written agreement found at 24 CFR 92.504(c)(3).

### **2.05 Standard City Contract Requirements**

**Section 3.** Any project that receives more than \$200,000 of federal HOME, HOME-ARP, CDBG, and/or NSP funds from the City of Minneapolis are subject to the Section 3 requirements outlined in 24 C.F.R. Part 75. The Section 3 program requires that recipients of certain HUD financial assistance, to the greatest extent possible, must meet the benchmarks of 25% or more of all labor hours worked by Section 3 workers, and 5% or more of all labor hours worked by Targeted Section 3 workers. The City must also certify to the greatest feasible the prioritization of effort for employment, training and contracting to low- and very low-income persons, especially Section 3 workers residing within the service area or neighborhood of the project, participants in YouthBuild programs, and Section 3 business concerns that provide economic opportunities to Section 3 workers residing within the service area or the neighborhood of the project.

### **Construction Standards**

Development must meet all Minneapolis City codes, all applicable HOME Property Standards found 24 CFR 92.251, and projects will be reviewed for energy efficiency.

### 3.01 Property Eligibility

Properties available for funding through the Minneapolis Homes program are vacant lots, vacant structures, or occupied homes (stabilization only). HOME funded projects must be single family (1-4 units), condominium unit, cooperative unit, combination of manufactured housing and lot, or manufactured housing lot.

- The City of Minneapolis may directly develop a property in its inventory. For HOME funded projects, the City cannot pay for the acquisition of property currently owned by the City in its inventory, except for property acquired by the City with HOME funds, or property acquired in anticipation on carrying out a HOME project. For City owned property, the City retains ownership during the rehabilitation/construction period. A developer may be contracted to act as a construction manager. The contracted developer will need to provide the scope of work, monitor construction, certify pay application requests from the general contractor, and facilitate project sale to an eligible owner-occupant. Licensed general contractors will be selected through a sealed bid process conducted by the City to complete the project. The City will provide financing required for the project within the allowable program limits and the developer will be compensated a flat fee of \$10,000 per project.

**3.02 City-owned Property Preparation** The City will undertake an Environmental review per 24 CFR 92.352 and 24 CFR Part 58 before any choice limiting action. Choice limiting actions include but are not limited to commitment of funds, site approval, acquisition, demolition, disposition, rehabilitation, repair, new construction, site preparation, and leasing or any other activities that commit to future activities.

### 4.01 Perpetually Affordable Housing (PAH)

For HOME funded projects, a resale provision is implemented and attached as an exhibit to this document. The resale provision allows different income tiers opportunity to purchase units.

#### 4.01a Eligible Activities

- **Stabilization of existing occupied units:** Purchase with or without rehabilitation of occupied structures is permitted if all occupants qualify as eligible borrowers and the purpose of acquisition is preservation of existing affordable housing.

#### 4.01b Establishing Sales Price (PAH)

Sales prices are based on discounts from appraised value and are also subject to program sales price limits.

In addition to the Minneapolis Homes Financing posted Ownership Subsidy Limits and Sales Prices, HOME-assisted properties are subject to the HUD HOME Homeownership Value Limits (as defined in 24 CFR 92.254(a)(2)) for the Twin Cities Metropolitan Area, which is available at:

<https://www.hudexchange.info/resource/2312/home-maximum-purchase-price-after-rehab-value/>.

(Please note: HUD publishes two Homeownership Value Limits – one for existing homes and one for new construction.)

Consequently, HOME-assisted units must have Sales Prices at or below the lower of the two limits.

### 4.02 Recapture

While Recapture is an option under Minneapolis Homes, only the Resale method is approved by HUD for HOME-assisted units. Recapture is not currently an option with HOME assistance.

### 4.03 New Construction Requirements

HOME funded new construction projects must also meet the property standards found at 24 CFR 92.251(a):

- State and local codes, ordinances and zoning requirements (92.251(a)(1))
- Accessibility requirements (92.251(a)(2)(i))
- Disaster mitigation requirements (92.251(a)(2)(iii))
- Obtain written cost estimates, contracts and construction documents (92.251(a)(2)(iv))
- Undertake construction progress and final inspections (92.251(a)(2)(v))

### 4.04 Rehabilitation Requirements

HOME funded rehabilitation projects must also meet the property standards found at 24 CFR 92.251(b):

- State and local codes, ordinances and zoning requirements (92.251(b)(1)(vii))
- The City's written rehabilitation standards that address health and safety, major systems, lead-based paint, accessibility, disaster mitigation, uniform physical conditions standards (92.251(b)(1))
- Obtain written cost estimates, contracts and construction documents (92.251(b)(2))
- Undertake construction progress and final inspections (92.251(b)(3))

### 4.05 Gap Financing

If HOME funds are provided to the project, four additional HOME regulatory requirements may apply to the determination of the Eligible Subsidy for the project:

- HOME Maximum Per-Unit Subsidy Limits (92.250(a))
- HOME project Underwriting and Subsidy Layering (92.250(b))
- Cost allocation (92.205(d)(1))
- Homebuyer underwriting guidelines (92.254(f)(1))

In addition to the Minneapolis Homes Financing Combined Subsidy Limits that apply to all projects, HOME-assisted projects are also subject to the HOME Maximum Home Per Unit subsidy limits for the Twin Cities Metropolitan Area defined in 24 CFR 92.250.

It is anticipated that the Minneapolis Homes Financing Combined Subsidy Limits will be the lower limit under most circumstances. However, if the Minneapolis Homes Financing posted sale price limits are higher than the HOME Maximum Home Per Unit subsidy limits, the HOME limits cap the amount of HOME subsidy. HOME subsidy may be layered with non-federal sources, such as state or local, in excess of the posted HOME subsidy limit.

HOME funds are intended as the last funding source and are only eligible to pay for the demonstrated need of affordability and value gap. An affordability gap of at least \$1,000 is required. All projects are subject to a subsidy layering review upon completion. Generally, funds will be prioritized as:

- 1) Leveraged funds (State, foundation, metropolitan council, etc.)
- 2) Local city funds
- 3) CDBG
- 4) NSP
- 5) HOME

#### 4.06 Project Gap

The HOME Final Rule specifies that every PJ have written underwriting and subsidy layering guidelines for all HOME activities to determine the appropriate HOME investment. For homebuyer activities:

- 92.250(b) specifies written PJ underwriting and subsidy layering guidelines for all HOME activities to determine the appropriate HOME investment, including market need/demand, developer experience and capacity, cost/fee/profit reasonableness and source commitments;
- 92.250(a) imposes maximum per-unit HOME subsidy limits (as well as a minimum subsidy of \$1,000 per unit 92.205(c)); and
- 92.254(f) requires written underwriting standards for determining the appropriate assistance to homebuyers, including analysis of housing and other debt ratios, monthly expenses, resources needed to sustain homeownership, and the terms of senior loans.

HOME participating jurisdictions are required to individually evaluate each proposed HOME-project prior to commitment of HOME funds to determine that the HOME funds (alone or in combination with other governmental assistance):

- Are necessary to provide quality affordable housing that is financially viable for the period of affordability, and
- Will not provide a profit or return on the owner's or developer's investment that exceeds the participating jurisdiction's established standards for the size, type and complexity of the project.

The Rule requires that the PJ's written policies and procedures include:

- Assessment of current market demand in the neighborhood where the project will be located;
- Assessment of the experience and financial capacity of the developer and/or owner;
- An examination of the sources and uses of funds for the proposed project and a determination that all project costs are reasonable; and

An assessment of the firm written financial commitments for the project.

The Minneapolis Homes Financing guidelines comply with these HOME requirements, as outlined below.

- Market demand – The City has completed a market analysis as part of the Minneapolis Homes Finance program. The result of the analysis was that there is a clear demand for single family units in affordable price ranges for households below 80% Area Median income.
- Developer experience and financial capacity – The developer is required to have completed a similar project in the last 2 years and have the financial capacity to complete the projects. The City will also do a capacity analysis on each developer to avoid capacity restraints and ensure there aren't too many projects associated with each developer.
- Current/In Good standing - Developer must be in good standing with the City in regard to any other Developments contracts that are in process with the City.
- Sources and uses – Sources must be identified and documented in the application. The cost standards in 5.05 apply to Uses.
- Firm commitment of sources – The City requires firm commitment to all sources being used for development prior to the closing of HOME funds.

#### **4.07 Affordability Gap**

The Affordability Gap (the difference between appraised value and the affordable sales price) is estimated at the application stage to determine the development assistance needed for Minneapolis Home projects. Then, at sale and final reconciliation, actual buyer gaps funded determine if any of the original HOME funds must be repaid.

The HOME Rule at 92.254(f)(1) requires the City to have buyer underwriting standards. The Minneapolis Homes underwriting standards are adopted for HOME-assisted units as discussed below in the HOME new Section 6.04.

#### **5.01 Timeline**

HOME funded projects must be completed within 4 years (24 CFR 92.205 (e)(2))-this currently fits within the City's proposed timeline.

All HOME-funded units must be sold or under a ratified sales contract to an eligible Low-Income homebuyer within 9 months of construction completion (24 CFR 92.254(a)(3)).

#### **5.03 Construction**

The HOME Program requires that units are subject to multiple inspections during the construction or rehabilitation of a project. The City will conduct both progress and final inspections to ensure the work is completed in accordance with the work write up. (24 CFR 92.251)

#### **5.05 Eligible Project Costs**

In addition to these costs listed above, all HOME funded project costs must be eligible as listed at 24 CFR 92.206.

#### **5.06 Ineligible Project Costs**

In addition to these costs listed above, HOME Projects may not fund any of the costs listed at 24 CFR 92.214.

#### **5.08 Affirmative Marketing**

- All HOME funded units must be marketed with outreach for homeownership to those least likely to apply to the project.
- The City will evaluate the results of affirmative marketing and maintain records of affirmative marketing and outreach efforts.

#### **5.07 Disbursement of Minneapolis Homes: Financing gap financing**

The HOME Program requires that HOME funding must be drawn to reimburse incurred eligible costs as per 24 CFR 92.206 and 92.502(c).

#### **5.10 Project Completion**

All HOME funded projects are considered complete when title transfer to an eligible buyer, all construction work has been completed and meets all HOME requirements including the property standards under 24 CFR 92.251, and all household data has been reported in IDIS within 120 days of transfer. The HOME period of affordability begins with the entry of completion information in IDIS.

### **6.01 Eligibility Criteria**

- Contract for deed is not permitted in HOME funded projects.
- The homebuyer must have a HOME written agreement with required elements found at 24 CFR 92.504 (c)(5).
- Homebuyer/s must complete the servicer's homebuyer orientation when property is a HOME resale project.

### **6.03 Reporting Household Demographic Data**

For HOME funded projects, information is drawn from the Certificate Application form to complete the data needed for IDIS.

### **6.04 Homebuyer Underwriting**

92.254(f)(1) of the HOME Final Rule requires the PJ to have homebuyer underwriting standards that evaluate housing debt and overall debt of the family, the appropriateness of the amount of HOME assistance, monthly expenses of the family, assets available to acquire the housing, and financial resources to sustain homeownership.

The standard Minneapolis Homes underwriting requirements for calculating a project's Affordability Gap as described in Section 4.07 of the Manual will also apply to the underwriting of individual buyers.

- Housing and Overall Debt to Income – The standard Minneapolis Homes policy for acceptable front-end ratio and back-end ratios used for evaluating a homebuyer's housing and overall debt will apply:
  - Minimum front-end ratio – The monthly housing expenses (front-end ratio) is at least 25% of their monthly underwriting income OR the first mortgage is limited by the loan-to-value ratio and not the buyer's payment capacity; and
  - The total debt burden (i.e., back-end ratio) is not in excess of 50%.
- Monthly Expenses – 92.254(f)(1) specifies that the underwriting policy must consider any recurring Monthly Expenses of the family beyond the housing and debt expenses that might affect the homeowner's ability to meet housing expenses, such as unusual transportation costs. The City has not identified any unusual living expenses that must be considered for this program.
- Downpayment and Post-Closing Cash Requirements – Standard Minneapolis Homes policies reserves apply:
  - Minimum homebuyer cash contribution of \$500 toward closing costs and downpayment.
  - Minimum cash reserves available post-purchase – The homebuyer must have sufficient cash resources (including savings, checking, money market, or retirement accounts) such that after closing there are financial resources of at least 2 times the monthly 1<sup>st</sup> mortgage payment.

### **6.05 Responsible Lending Policy**

92.254(f)(2) requires the PJ to have responsible lending standards that ensure that the homebuyer's primary mortgage is affordable and sustainable and contains appropriate terms. To ensure that homebuyers receive high quality loans that are sustainable over time, the City requires that any buyer receiving HOME assistance obtain a senior loan (i.e. first mortgage) meeting the following criteria:

- The first mortgage loan must be considered an "A" or "prime" lending product.
- It must be a fixed rate FHA, VA, or Conventional loan, unless pre-approved by Minneapolis Homes staff.



- The loan should fully amortize over a 30-year term and not include negative amortization, interest-only periods and balloon payments. Shorter-term or longer-term loans must be underwritten and approved by the City in writing.
- Points and origination fees cannot exceed 2%. Other closing costs cannot exceed 2% (excluding pre-pays.)

## **Chapter 8: Servicing Loans/Covenants**

The City will contract with specific organization/s to administer & service the HUD-approved resale model and any additional models that become approved.

### **8.01 Non-Occupancy and Repayment**

The homeowner is noncompliant, if during the POA, any of the following events occur:

- The homebuyer does not occupy the home as his/her/their primary residence without a sale;
- Vacates the home; or
- Sublets and rents the home to another household.

If the homebuyer fails to occupy the property as his/her/their principal residence, the City will issue a notice of noncompliance to the homeowner requiring re-occupancy within a reasonable period of time or full repayment.

### **8.02 Resale**

Under 92.254(a)(5)(i), sale of the property during the HOME Affordability Period must be to another Low-Income buyer at an affordable price. The price must provide the original homebuyer with a fair return on investment (including the homeowner's investment and any capital improvement) and also be affordable to a reasonable range of low-income homebuyers. The City has adopted, and HUD has approved a resale policy governing such sales.

The provisions of the ground lease and addendum will govern the resale, and the servicer will administer the ground lease and HOME requirements. The servicer will notify the City of the pending resale, and provide verification of:

- The income eligibility of the homebuyer; and
- The affordable price as determined by the ground lease
- Any Corresponding executed documents pertaining to the ground Lease and ground lease addendum from sale to any subsequent homebuyers.

If additional assistance is required to make the home affordable to the eligible and qualified buyer, the City will make available additional assistance to the subsequent low-income homebuyer. The additional HOME homebuyer assistance must be treated as an amendment to the original project and will be combined with their assumption of the existing note to determine the new POA and execute a new (replacement) note for the total assistance.

The servicer will oversee the property transfer and execution of the new ground lease with HOME addendum and will provide a copy to the City.

### **8.03 Refinancing**

The HOME Rule at 92.254(f)(3) requires the City to have a refinancing policy governing the approval or denial of subordination requests.

In the event an assisted homeowner notifies the City-designated servicer of intent to refinance, the servicer will review the proposed refinancing to determine compliance with the applicable refinancing

policy and the new loan's consistency with the program's responsible lending policy.

## ***Appendix H: HOME Resale Policy***

### **HOME Single Family Programs**

HOME funds will be used as a funding source through the City's Minneapolis Homes – Financing program for the acquisition and renovation or new construction and sale of single-family dwellings. HOME funds programmed for single family housing development and sale is administered under the City's Minneapolis Homes Financing Program umbrella, but its uses are restricted to ensure that their use is consistent with federal HOME regulations and the City's Consolidated Plan. HOME funds may be used for any of the following activities: acquisition, demolition, renovation/repairs, or new construction.

The City will not invest any more HOME funds, in conjunction with other governmental (federal, state, and local sources) than is necessary to provide affordable housing as defined by the HOME regulations. The maximum HOME funding included in any ownership project, including any development subsidy and affordability subsidy, will not exceed the Twin Cities Area Maximum HOME subsidy limits established by HUD.

### **Minneapolis Homes - Financing**

Minneapolis Homes Financing using HOME is designed to provide and sustain affordable, owner-occupied housing in 1-4-unit buildings for low and moderate-income purchasers throughout Minneapolis and reduce racial disparities in homeownership. All Minneapolis Homes Financing-assisted projects are expected to be owner-occupied upon completion.

### **Resale to Another Low-Income Buyer During the Period of Affordability**

All units that have been assisted with HOME funding will be under a resale provision and sold through an approved Land Trust model. The Resale method is used for properties City-wide that require a purchase price write down of 20% or more of a home's value and are required to be sold through a Land Trust to ensure perpetual affordability of the unit sold. An example of this option is noted in exhibit A

At resale, the home will be resold at a price that (1) is affordable to a reasonable range of income-qualified homebuyers, and (2) give a reasonable return to the seller based on the Ground Lease formula described below, which provides for the value of improvements and a portion of the appreciation.

The resale requirements are spelled out in the Ground Lease that includes a City- required addendum rider to the ground lease in most projects (or a housing subsidy covenant when legally required such as condominium developments.) The ground lease addendum (or housing subsidy covenant) will be signed by the Land Trust, the homebuyer, and the City, and will provide the City with the rights enforce the Land Trust and City requirements if the Land Trust fails to do so.

There will be a 15-year HOME Period of Affordability whereby the unit must comply with these HOME resale requirements, but the City additionally requires an extended local use restriction period that runs for as long as the unit is subject to the Land Trust's ground lease. Purchasers will be required to maintain the property as their principal residence for as long as they own the property which is enforced with the executed ground lease and addendum rider attached to the property.

## **Affordable to a Reasonable Range of Buyers**

All housing units funded with HOME funds will be affordable and will be sold initially, and at subsequent sale during the period of affordability, to an eligible homebuyer in a reasonable range between 41-80% AMI. The homebuyers must have an annual income at or below 80% of Area Median Income as established by HUD and adjusted by household size and must meet the program's homebuyer underwriting and responsible lending standards, which include a minimum of 25% and maximum 40% of their income for principal, interest, taxes, insurance and any ground lease fees (with City assumptions for average applicable condominium fees, where applicable) and a total debt ratio not exceeding 50% of income.

Any subsequent homebuyer will need to be approved by the City to ensure that the homebuyer meets Minneapolis Homes requirements, including the program's underwriting and responsible lending policies.

During the HOME Period of Affordability, the home will be made available to a qualified buyer who below 80% AMI and meets Program requirements, including the underwriting and responsible lending standards. Because the resale price is restricted by the terms of the ground lease and addendum, the resale price is anticipated to be affordable to a subsequent homebuyer within the reasonable affordability range without additional assistance. However, the City will make available additional assistance as needed to make the resale price affordable to buyers.

If additional HOME assistance is provided to a subsequent purchaser, the HOME Period of Affordability will be extended to reflect the total investment. If no additional assistance is provided or if the additional assistance is a non-HOME source, the subsequent buyer will be subject to program requirements for the remainder of the original HOME Period of Affordability.

### **Reasonable Return**

Under the Land Trust's model, the homebuyer only purchases the improvements, while the Land Trust retains fee title to the land. Upon resale, the homeowner may recover its purchase price, the value of any qualified improvements and its share of market value appreciation, if any.

The City has determined that the Land Trust's resale restrictions will comply with federal requirements by ensuring the initial purchaser with a fair return on their investment, and by limiting the share of any appreciation to ensure that the resale of any eligible property will not exceed the then-applicable HOME Homeownership Value Limit for Existing Homes during the HOME Period of Affordability.

The Land Trust calculates the fair return on investment using the following methodology:

A calculation of Market Value Appreciation will be performed. An independent 3<sup>rd</sup> party appraiser will establish the Current Appraised Value of the property and separately identify the current value of Qualified Capital Improvements.

Qualified Capital Improvements means those certain improvements made to the Improvements on the Premises at initial purchaser's expense which add significant value to the Improvements, and which are capital in nature.

Improvements which would qualify as Qualified Capital Improvements include, without limitation: the construction of additions, rooms, garages, bathrooms and kitchen remodeling. However, expenditures for maintenance, such as roof replacement, and the updating or replacement of appliances such as furnaces, water heaters and kitchen appliances, would not qualify as Qualified Capital Improvements herein.

The Initial Appraised Value of the property (which was determined at time of original purchase) will be subtracted from the Current Appraised Value to establish the Increase in Market Value Appreciation.

A 25% Shared Appreciation Factor will be applied to the Increase in Market Value Appreciation to determine the initial purchaser's Share of Market Value Appreciation. (The 25% Shared Appreciation Factor was determined through community engagement upon the founding of CLCLT and has proven to both provide homebuyers a fair return on investment and to successfully maintain affordability in perpetuity.)

Fair Return on Investment will be calculated by adding the Share of Market Value Appreciation, plus down payment costs, plus the appraised value of Qualified Capital Improvements.

See **Exhibit A** for an example of a sample calculation for resale of a Land Trust assisted unit.

## EXHIBIT A

The “Initial Appraised Value” is \$200,000. “Homeowner’s Purchase (Base) Price” is \$150,000. Based on the above, the following formula is used to calculate the Maximum Formula Price:

*Calculation of Market Value Appreciation:* For the purpose of determining the Maximum Formula Price, Market Value Appreciation shall be determined by subtracting Current Appraised Value from the Initial Appraised Value. Following is a table for calculating Market Value Appreciation:

Current Appraised Value (at time of resale)	\$280,000	Minus	Capital Improvements Appraised Value	—	\$8,000	Minus	Initial Appraised Value (at date of Ground Lease)	—	<u>\$200,000</u>
Equals Market Value Appreciation	=								\$72,000

*Calculation of Homeowner’s Share of Increase in Market Value:* For the purpose of determining the Purchase Option Price, the Homeowner’s Share of Market Value Appreciation shall be determined by multiplying the Market Value Appreciation by 25% (twenty-five percent) Following is a table for calculating the Homeowner’s Share of Increase in Market Value of the Home:

Market Value Appreciation	\$72,000				
Multiplied by Shared Appreciation Factor x	<u>25%</u>				
Equals the Homeowner’s Share of Market Value Appreciation	=				\$18,000

*Calculation of Maximum Formula Price:* The Maximum Formula Price shall be determined by adding the Homeowner’s Share of Market Value Appreciation to the Homeowner’s Purchase Price. Following is a table for calculating the Maximum Formula Price:

Homeowner’s Base Price	\$150,000				
Plus Capital Improvements Appraised Value	+		\$8,000		
Plus Homeowner’s Share of Market Value Appreciation	+		<u>\$18,000</u>		
Equals Maximum Formula Price	=				\$176,000

*In the scenario above, the homeowner/seller would receive net proceeds of a market value appreciation of \$18,000 plus a credit of \$8,000 for capital improvements made during their homeownership period and additionally receive any principal buy down of their first mortgage. The total net proceeds would be \$18,000 appreciation, plus the \$8,000 capital improvement credit. The next purchaser would buy the home for an affordable price of \$176,000 instead of paying the full appraised value of \$280,000.*