April 3, 2025

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

Chair Latz and Members of the Senate Judiciary Committee,

The Minnesota Bankers Association (MBA) appreciates the opportunity to submit this letter regarding SF1750, the Minnesota Common Interest Ownership Act.

The MBA was established in 1889. It is the state's largest bank trade group, representing 280 member banks operating in Minnesota. The MBA's members include both nationally chartered and state-chartered banks, ranging in size from the largest to the very smallest.

Bankers have raised concerns about section 3 of SF1750. It deletes the mortgagee consent requirement in actions to terminate an association without any apparent mitigation for this loss of rights. Banker feedback is that this could make lending to Minnesota condo associations less desirable, as mortgage holders would no longer have control over the circumstances under which its customer, the association, can be dissolved, or the manner in which common elements are subsequently disposed of.

Collateral for an HOA loan is typically accounts receivable (assessments). Unpaid assessments are still deducted from proceeds of the sale of common elements and paid, and lenders retain a lien against the units for any remaining claims against the association, but that lien would be behind other recorded unit creditors, so it would be cleaner and more lender-friendly to retain some level of control over dissolution in the first place. When laws increase lending risks, as this language does, it usually results in higher loan rates to compensate for that risk.

More importantly, there is also concern that FNMA would not be comfortable buying mortgages on condo buildings where the association can be dissolved without mortgagee approval. It is possible that Fannie Mae could blacklist/make ineligible condo buildings in Minnesota. In addition, FHA and VA may not be willing to lend in that situation. If that happens, it will be very difficult for consumers to purchase condos as they may not be saleable on the secondary market. The Bar Association has raised these same concerns:

> Historically, FNMA, FHA and VA have all required that CIC documents expressly include provisions that require 80% mortgagee consent to the termination of the CIC. This provision would nullify those provisions. The authors and proponents of this provision should be certain that the adoption of this provision will not cause FNMA to stop insuring and/or FHA and VA to stop guaranteeing loans securing by common interest communities in Minnesota.

We encourage the proponents to take a close look at this issue as it may have a significant and detrimental impact on the ability of both associations and consumers to obtain financing.

Thank you for the opportunity to comment on this legislation.

Sincerely,
Tess Rice
General Counsel

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