State of Minnesota

Minnesota Housing Finance Agency

In the Matter of the Proposed
Adoption of Rules of the Minnesota
Housing Finance Agency Governing
Neighborhood Preservation Home
Improvement Loans

Statement of Need and Reasonableness

4900.0010

This part sets forth definitions for the purpose of Parts 4900.2300 to 4900.2340.

Subpart 23.F.

The Agency has adopted policy to provide housing rehabilitation financing assistance to individuals and families of low and moderate income. This subpart is necessary to define low and moderate income persons and families. A definition using the income limits set by an agency of the federal government is reasonable, as these limits are regularly reviewed and adjusted to reflect economic conditions in various Minnesota areas.

4900.2300

This part establishes definitions for various elements of neighborhood preservation home improvement loans.

Subpart 1

This subpart is necessary to identify the parts of the rules for which the definitions in this part are applicable.

Subpart 2

This subpart defines a city for the purpose of establishing what entity is eligible to designate a neighborhood and to submit a request for funding.

It is reasonable to use this definition, as cities are the unit of local government which are best qualified to identify a neighborhood needing assistance.

Subpart 3

This subpart identifies the minimum characteristics necessary for a geographic area to be considered as a designated neighborhood.

The definition of a designated neighborhood is necessary to assist the city and the Agency in targeting the loans and measuring the impact of the loans within the neighborhood.

It is reasonable to use the elements cited, as virtually all neighborhoods are within an incorporated city, have definite boundaries, and consist of structures used primarily for residential purposes. These minimum elements are also general enough to provide flexibility to a city in their designation of a neighborhood.

It is also reasonable to require Agency approval of a neighborhood designation to ensure scarce resources can be targeted to neighborhoods most needing assistance and resulting in the most impact.

Subpart 4

This subpart establishes that there are two types of applicants. It is necessary to have two types of applicants, as the statutory authority for these loans indicates that at least 75% of the funds must be made available to applicants meeting the Agency's normal definition of eligible applicants, while up to 25% of the funds may be made available to entities not meeting the Agency's normal definition of eligible applicants.

Subpart 5

The Agency is restricted by MS462A.03, Subdivision 13 to making loans to those persons or entities listed.

It is reasonable and necessary to use this definition for a general applicant for these loans because of the statutory requirement that at least 75% of funds committed to a neighborhood be made available to this type of applicant.

Subpart 6

This subpart is necessary to identify the parts of rules which apply to the program.

Subpart 7

By statute, up to 25% of funds committed to a neighborhood may be made available to those applicants who do not meet the general applicant definition.

It is necessary to provide housing rehabilitation financing assistance to these other applicants, as the primary purpose of these loans is to improve most of the housing in a designated neighborhood.

This subpart, in conjunction with Subpart 4, will ensure that most property owners will have access to funds when the improvements will benefit the entire designated neighborhood.

This subpart will also support the Agency's policy of economic integration within the designated neighborhood.

4900.2310

This part establishes criteria for cities to request a commitment of neighborhood preservation home improvement funding to improve a designated neighborhood.

Subpart 1

This subpart allows the Agency to solicit requests for funding from eligible cities. The Agency must allow cities at least 60 days to submit their proposals.

Subpart 2

This subpart lists the essential elements which must be included in a city's request for funding.

The specific elements are necessary to ensure that limited financial resources are awarded to the funding proposals having the greatest need and the greatest expected impact on the designated neighborhoods.

The specific elements requested are reasonable to adequately compare competitive proposals, and to ensure the city has exercised care and diligence in identifying an eligible neighborhood and its needs.

4900.2320

This part identifies various eligibility criteria for borrowers, properties, and financing.

Subpart 1

An eligible borrower must be either a general applicant or an other applicant, and must qualify for a loan in all other aspects.

Subpart 2

Most loans will be secured with a mortgage against the property to be improved. To obtain a valid and enforceable mortgage as security, the Agency has as its policy that borrowers must have the necessary ownership interest indicated. The required ownership interest is identical to the requirement in other Agency home improvement programs. It is reasonable to require borrowers to have an ownership interest in order to obtain valid and enforceable mortgages, and to ensure that borrowers have an incentive to repay the loan.

Subpart 3

To obtain financing for these loans, the Agency must ensure that the borrowers are reasonable credit risks, and they must have a demonstrated ability to repay the loans. This requirement is both reasonable and necessary for the Agency to meet its fiduciary responsibilities.

Subpart 4

This provision is necessary so that the state does not subsidize or encourage violations of zoning ordinances or other land use guides.

Subpart 5

This subpart is necessary and reasonable because the purpose of the program is to improve existing residential housing in a designated neighborhood, not commercial or public property.

Subpart 6

It is necessary to limit the amount of time necessary for a borrower to complete the work in order to ensure the funds are spent for the intended purposes and the impact of the improvements on the neighborhood will occur within a measurable time.

Nine months is a reasonable time period for the completion of work, as this allows adequate time to accommodate seasonal construction periods.

Subpart 7

Conventional financing means financing which is not subsidized and is available to any similarly situated borrower.

Private lenders generally mean for-profit entities which are regularly engaged in making interest-bearing loans for the purpose of financing housing rehabilitation. This subpart is reasonable because the purpose of the program is to provide financing with terms and conditions which will encourage investment in housing that might not occur given terms and conditions of conventional loans.

Subpart 8

The Agency is mandated by statute to require general applicants that own rental properties to give preference in housing to low and moderate income tenants who occupied the housing at the time of application for the loan, and to establish conditions for insuring that the housing will be occupied by persons and families of low and moderate income upon completion of the improvements.

The occupancy requirement does not require all units in a multi-unit property to be occupied by low and moderate income persons or families. It is reasonable to allow higher income occupants in the properties, as this promotes the Agency's policy of economic integration.

4900.2330

This part specifies the amount of funds which are to be made available within a designated neighborhood to general applicants and to other applicants. The rule is necessary and reasonable as the amounts made available to the two types of applicants is a statutory requirement.

4900.2340

This part specifies the eligible uses of loan proceeds.

Subpart 1

Eligible improvements are limited to those eligible in the Agency's Home Improvement Loan Programs.

It is necessary to limit the types of eligible improvements to ensure compliance with the federal government's requirements governing uses of tax-exempt bond proceeds and to not finance frivolous improvements.

It is reasonable to use the Home Improvement Loan Program's regulations as the definitions of eligible improvements, as the regulations are the most familiar to Agency staff, city staff, and the Agency's financial investors.

Additionally, the Agency's Home Improvement Loan Program's regulations are sufficiently broad in their language and implementation as to provide for the financing of a broad scope of various improvements. It is therefore reasonable to use these regulations to provide the necessary flexibility to applicants and cities in doing improvements to individual properties within designated neighborhoods.

Subpart 2

This subpart allows up to 50% of the loan proceeds to be used to satisfy a mortgage or contract-for-deed involving the property to be improved, provided it is necessary to enable borrowers to meet prudent lending affordability standards.

This action is reasonable when it is done to enable a borrower to reduce their total monthly payment obligations to afford the new monthly payment on the neighborhood preservation home improvement loan.

It is reasonable to restrict the amount of funds available to refinance existing mortgages or contracts-for-deed because the primary purpose of the program is the finance of property improvements and because the debt the Agency will issue to finance loans will be short term debt, making large refinancings with short terms impractical.

The Agency is cognizant of the provisions of Section 14.115 of Minnesota Statutes, entitled Small Business Considerations in Rulemaking. To the extent that the loan funds directly benefit the low and moderate income occupants in structures within the Agency's Program, the statute is inapplicable. To the extent that the funds may inure to the benefit of small businesses, the proposed rules do not establish any compliance or reporting requirements, design or operational standards not mandated by the federal government, and the effect of the Agency's Program in making the loan funds available is to make decent, safe, and sanitary housing affordable primarily for low and moderate income persons and, as a consequence, the proposed regulations have no negative effect on small businesses.