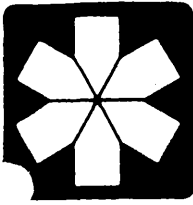


12/17/90



**MINNESOTA
HOUSING
FINANCE
AGENCY**



February 4, 1991

Legislative Commission to Review
Administrative Rules
Room 55, State Office Building
100 Constitution Avenue
St. Paul, MN 55155

RE: Proposed Permanent Rules Relating to Mortgage Revenue Bonds for the
Purchase of New Housing and Single Family Mortgage Revenue Bond Authority

To Whom it May Concern:

I have attached a copy of the Statement of Need and Reasonableness for the above mentioned rules. If you should have any questions, feel free to call me at 296-8837.

Terese Frtichman

State of Minnesota

Minnesota Housing Finance Agency

In the Matter of the Proposed Permanent
Rules Relating to Single Family Mortgage
Revenue Bond Authority

Statement of Need
and Reasonableness

4900.3200 through 4900.3290:

Minnesota Statutes Section 474A.061, Subdivision 2a governs the bond allocation process from the housing pool for single family housing programs submitted by cities to the Minnesota Housing Finance Agency (Agency). Minnesota Statutes Section 474A.408 establishes limitations on the use of bonds for single family housing programs by both cities and the Agency. The proposed rules have been developed to address city programs under the above-referenced statutes.

Proposed Minnesota Rules 4900.3210, subparts 1 through 16, provide definitions under these rules. The definitions provided under these rules were either taken directly from the applicable statutes or are standard definitions pertaining to Agency programs as are commonly provided in other rules. Thus, the definitions are not deemed to be controversial.

Proposed Minnesota Rules 4900.3220 specify eligible programs that may be provided with the proceeds of bonds from the housing pool. Under subpart 2 of these rules, it is clarified that "adjusted income" as contained in the statute refers to adjusted income as defined in part 4900.0010, subpart 3 as opposed to any other definitions of adjusted income that may be contained in other statutes. This subpart also recognizes that the raising or lowering of borrower income limits during a bond origination period may have an adverse impact on the operation of an eligible program and, thus, provides direction for cities in the event that Agency income limits are raised or lowered. Such direction has been provided to enable cities to flexibly deal with this occurrence without damaging the operation of their program.

Proposed subpart 3 of Minnesota Rules 4900.3220 governs house price limits for eligible programs. The same flexibility is provided to cities if such house price limits are raised or lowered as was described in the preceding paragraph. This subpart also establishes procedures that cities must follow if they plan to request house price limits higher than the Agency's house price limits. Cities are provided with the time period for which they must provide data establishing the median purchase price of a home in their locality as well as acceptable sources of data. Again, flexibility is provided to cities so that they may assemble data from a variety of sources that may be available in their particular locality.

Proposed subpart 4 of Minnesota Rules 4900.3220 imposes limits on new construction in the Twin Cities Metropolitan Area for city programs as described in Minnesota Statutes 474A.048. Subpart 4, A and B is taken almost directly from the statute. Subpart 4C, (1) through (5) has been provided to specify acceptable housing affordability initiatives for eligible programs. These housing affordability initiatives

provide a range of acceptable activities for affordable housing as are currently recognized in the housing community. They are specific as to both allowable activities and the extent to which contributions must be made to such activities.

Proposed subpart 5 of Minnesota Rules 4900.3220 provides that cities outside the Twin Cities Metropolitan Statistical Area must provide a description of the steps under their eligible programs to encourage loans for existing housing as opposed to new housing. While it is clear that these steps may include the housing affordability initiatives as described in subpart 4, such cities are not limited to these initiatives as the statute did not specify that this was to be the case. Rather, the statute recognized that there may be a variety of circumstances occurring in cities throughout the state that may result in a greater or lesser need for newly constructed housing. As a result, this was reflected in the rule.

Proposed Minnesota Rules 4900.3220, subparts 6 through 8 either provide material directly from the applicable statutes or clarify the intent of the statute. None of the material contained in these subparts is deemed to be controversial.

Proposed Minnesota Rules 4900.3230 describes the application process by which cities may apply for bond authority from the housing pool. Subpart 1 provides a general summary on city options pertaining to such bond authority and subpart 2 specifies the application period as provided in the statute.

Proposed subpart 3 of Minnesota Rules 4900.3230 describes the application requirements for each city. The application requirements have been structured so that the cities submit data that is required under the applicable statutes and these administrative rules. To demonstrate housing need and economic viability of an eligible program, cities may submit a housing plan as described in Minnesota Statutes 462C.03, Subdivisions 1 and 1a, as is currently required for many city housing programs and is commonly completed by larger cities. However, the rules also provides that cities may submit data demonstrating that the program meets a locally identified housing need and is economically viable on a form to be developed by the Agency. This has been done to facilitate applications by smaller cities that may wish to participate in this program but do not commonly develop the housing plan described under statute. Subpart 3 also establishes that the minimum allocation that may be requested shall be \$250,000. Economically, it is unfeasible to either sell bonds or have the Agency issue bonds on behalf of a city that needs funds less than this amount. Furthermore, there are alternate programs that may provide similar funds to such cities.

Proposed Minnesota Rules 4900.3250 describes the applicant selection process. Under subpart 1, the Agency obligates itself to hold a meeting no later than 30 days after the end of an application period to allocate the available funds from the housing pool. This time period was prescribed to enable the Agency to have a sufficient amount of time to review the applications but also to expedite the process. So that the Agency may negotiate the terms of an agreement allotting bond authority with authorized city representatives, it is required that applicants shall designate their representatives to this meeting in writing to the Agency. The rule clarifies that the Agency and representatives of each applicant may discuss matters pertaining to the terms under which the Agency would issue bonds on behalf of cities during the negotiations allocating bonding authority.

Under proposed subpart 2 of Minnesota Rules 4900.3250, the Agency agrees to send a copy of the agreement allocating bond authority that is forwarded to the Commissioner of Finance under statute to each applicant. This is done to assure each applicant that this material has been appropriately and correctly submitted.

Under proposed subpart 3 of Minnesota Rules 4900.3250, it is required that each city must designate within 15 days of the date of the agreement whether it plans to issue mortgage revenue bonds on its own behalf or through a joint powers agreement, or whether it plans to ask the Agency to issue mortgage revenue bonds on its behalf. This notification requirement enables the Agency to expedite the structuring of a bond sale for cities that choose to have the Agency issue bonds on its behalf.

Proposed Minnesota Rules 4900.3270 describes the process and conditions under which the Agency may issue bonds on behalf of cities. Subpart 2 makes it clear that the Agency may develop agreements which govern administrative procedures pertaining to programs funded with mortgage revenue bonds sold on behalf of cities. The Agency has carefully developed procedures for its own bond programs to meet the requirements of state and federal law as well as to prudently address Agency financial risk. It is anticipated that such procedures will not hinder the development and implementation of city programs. The rule makes clear that the Agency shall attempt to facilitate such programs.

Proposed subparts 3 and 4 of Minnesota Rules 4900.3270 specify that the Agency may make the Homeownership Assistance Fund to cities participating under this part and clarify the application deposit refund process. Neither of these subparts is deemed to be controversial.

Proposed Minnesota Rules 4900.3290 describes the process that the cities must follow if they choose to issue bonds on their own behalf or under a joint powers agreement. This part is adapted directly from the statute and is not deemed to be controversial.

The Agency is cognizant of the provisions of section 14.115 of Minnesota Statutes, entitled Small Business Considerations in Rulemaking. The proposed rule does not establish any compliance or reporting requirements, or design or operational standards that directly affect the way any business must operate. Therefore, the provisions contained in Minnesota Statutes 14.115 (1986) do not apply to the proposed rule described herein.